Lumen Re

Lumen Re Ltd.
Financial Statements

For the years ended December 31, 2022 and 2021
(expressed in U.S. dollars)

pwc

April 12, 2023

Report of Independent Auditors

To the Board of Directors and Shareholders of Lumen Re Ltd.

Opinion

We have audited the accompanying financial statements of Lumen Re Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

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 *Auditors' responsibilities for the audit of the 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 opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements are available to be issued.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' 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 financial statements.

PricewaterhouseCoopers Ltd., Chartered Professional Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda
T: +1 (441) 295 2000, F:+1 (441) 295 1242, www.pwc.com/bermuda

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 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 financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. 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 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.

Required supplemental information

Accounting principles generally accepted in the United States of America require that the required supplemental information pertaining to *Short-Duration Contracts* disclosures labelled as "Unaudited" within Note 9 on pages 15 to 19 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

(expressed in USD)

Balance Sheets

	2022 USD	2021 USD
Assets		
Cash and cash equivalents	34,503,082	48,533,462
Restricted cash and cash equivalents	254,664,092	374,315,472
Trading securities, at fair value	180,821,698	112,830,000
Restricted trading securities, at fair value	1,572,520,154	2,590,260,964
Deferred acquisition costs	1,861,776	3,103,026
Premium receivable	25,306,715	41,105,022
Unpaid losses and loss adjustment expenses recoverable	722,352,071	746,549,834
Prepaid reinsurance	13,065,773	21,144,432
Prepaid expenses	–	39,905
Total assets	**2,805,095,361**	**3,937,882,117**
Liabilities		
Unearned premiums	17,596,936	25,333,903
Ceded deferred acquisition costs	1,380,093	–
Reserve for losses and loss adjustment expenses	824,484,783	841,516,223
Reinsurance balances payable	1,595,928,293	2,752,328,389
Accounts payable and accrued liabilities	1,118,388	1,061,060
Total liabilities	**2,440,508,493**	**3,620,239,575**
Shareholders' equity		
Common shares (par value USD 1; issued and outstanding 353,501,238 shares)	353,501,238	310,000,001
Contributed surplus	1,497,181	–
Retained earnings	9,588,449	7,642,541
Total shareholders' equity	**364,586,868**	**317,642,542**
Total liabilities and shareholders' equity	**2,805,095,361**	**3,937,882,117**

(expressed in USD)

Statements of Income / (Loss) and Comprehensive Income / (Loss)

	2022 USD	2021 USD
Revenues		
Gross written premiums	227,691,146	336,982,024
Reinsurance premiums ceded	(176,568,462)	(297,216,260)
Net premiums written	**51,122,684**	**39,765,764**
Net change in unearned premiums	(341,692)	(363,523)
Net premiums earned	**50,780,992**	**39,402,241**
Other insurance income	7,385,886	11,888,650
Net investment income	2,667,490	139,529
Foreign exchange (losses) / gains	(3,049,389)	149,998
Total revenues	**57,784,979**	**51,580,418**
Expenses		
Losses and loss adjustment expenses	(43,506,445)	(75,521,671)
Acquisition costs	(7,832,903)	(4,591,496)
General and administrative expenses	(4,499,723)	(3,811,123)
Total expenses	**(55,839,071)**	**(83,924,290)**
Net income / (loss) for the year	**1,945,908**	**(32,343,872)**
Net income / (loss) and other comprehensive income / (loss) attributable to common shareholders for the year	**1,945,908**	**(32,343,872)**

(expressed in USD)

Statements of Changes in Shareholders' Equity

	2022 USD	2021 USD
Share Capital		
Balance at beginning of year	310,000,001	310,000,001
Buy-back of non-voting shares 41,100,592 shares	(41,100,592)	–
Issuance of non-voting shares 84,601,829 shares	84,601,829	–
Balance at end of year	**353,501,238**	**310,000,001**
Contributed Surplus		
Balance at beginning of year	–	–
Contributions from shareholders	2,896,588	–
Distributions to shareholders	(1,399,407)	–
Balance at end of year	**1,497,181**	**–**
Retained earnings		
Balance at beginning of year	7,642,541	39,986,413
Net income / (loss) and comprehensive income / (loss)	1,945,908	(32,343,872)
Dividends declared and paid	–	–
Balance at end of year	**9,588,449**	**7,642,541**
Total shareholders' equity	**364,586,868**	**317,642,542**

(expressed in USD)

Statements of Cash Flows

	2022 USD	2021 USD
Operating activities		
Net income / (loss)	1,945,908	(32,343,872)
Adjustments to reconcile net income / (loss) and other comprehensive income / (loss) to cash provided by operating activities:		
Investment income	(2,667,490)	(139,529)
Charges / (credits) to reconcile comprehensive income to net cash from operations:		
Net change in:		
Premium receivable	15,798,307	(1,133,816)
Prepaid reinsurance premiums	8,078,659	(924,827)
Prepaid expenses	39,905	–
Deferred acquisition costs	1,241,250	73,201
Ceded deferred acquisition costs	1,380,093	–
Unearned premiums	(7,736,967)	1,288,352
Reserve for losses and loss adjustment expenses	(17,031,440)	415,499,415
Unpaid losses and loss adjustment expenses recoverable	24,197,763	(371,895,033)
Reinsurance balances payable	(1,156,400,096)	1,997,018,516
Accounts payable and accrued liabilities	57,328	393,100
Net cash (used in) provided by operating activities	**(1,131,096,780)**	**2,007,835,507**
Investing activities		
Purchases of investments	(4,080,796,702)	(5,591,199,580)
Proceeds from sale / maturity of trading securities, at fair value	5,011,181,228	3,345,729,493
Interest earned on investments	(11,145,975)	(139,529)
Foreign exchange	33,178,051	19,165,536
Net cash provided by (used in) investing activity	**952,416,602**	**(2,226,444,080)**
Financing activities		
Buy-back of non-voting shares	(42,499,999)	–
Issuance of non-voting shares	87,498,417	–
Net cash provided by (used in) financing activities	**44,998,418**	**–**
Net decrease in cash and restricted cash during the year	**(133,681,760)**	**(218,608,573)**
Cash, cash equivalent and restricted cash – Beginning of year	**422,848,934**	**641,457,507**
Cash, cash equivalent and restricted cash – End of year	**289,167,174**	**422,848,934**
Represented by		
Cash and cash equivalents	34,503,082	48,533,462
Restricted cash and cash equivalents	254,664,092	374,315,472
	289,167,174	**422,848,934**

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

Notes to the Financial Statements

1 Organization

Lumen Re Ltd. (the "Company"), formerly Collateralised Re Ltd., was incorporated in Bermuda on October 31, 2013 and initially licensed as a Special Purpose Insurer ("SPI") pursuant to the Bermuda Insurance Act 1978 (the "Act"). On May 1, 2017 the Company obtained a Class 3A license in accordance with the Act. As at December 31, 2022 the Company recorded net premium written exceeding the USD 50,000,000 threshold defined within the Act as the limit for a Class 3A reinsurer and with this the Company meets the requirements of a Class 3B reinsurer. The Company has been in communication with the Bermuda Monetary Authority in regard to this matter and has received a written approval to file the Statutory Financial Statements as of December 31, 2022, as a Class 3B reinsurer pursuant to the Act.

From incorporation to April 30, 2017, the Company was directly funded by insurance-linked investment funds ("Funds") managed by LGT ILS Partners Ltd. ("LGT ILS"), itself part of one of the largest privately held private banking and asset management groups in Europe. Due to structural changes that occurred effective May 1, 2017, a related company, Secundum Re Ltd. ("Secundum Re") provides the majority of the funding via a fully-funded variable quota share agreement, the collateral for which is 100% provided by the Funds. As part of this structural change, the Company issued non-voting preference shares worth USD 310,000,001 to the LGT (Lux) II – ILO Fund. In December 2018 these shares were re-classified as non-voting common shares. On January 1, 2022 and on December 1, 2022 the Company accepted capital from additional investors, while at the same time the LGT (Lux) II – ILO Fund slightly decreased its holdings. As a result, during 2022 there was a total share buy-back of 41,100,592 non-voting shares worth USD 42,499,999 and a total share issuance of 84,601,829 non-voting shares worth USD 87,498,417 to Lumen Holding LP. As a result, the issued non-voting shares increased from USD 310,000,001 to USD 353,501,238 as at December 31, 2022 with contributed surplus of USD 1,497,181.

The Company predominately writes non-proportional, property catastrophe reinsurance business with a well-diversified group of (re)insurance companies and with a geographic spread of coverage. As aforementioned, the vast majority of this business is retroceded to Secundum Re.

In December 2017, A.M. Best assigned the Company a Financial Strength Rating of "A" with a 'stable' outlook. The rating was re-affirmed by the rating agency in May 2022.

The registered office of the Company is located at Canons Court, 22 Victoria Street, Hamilton, HM12, Bermuda.

The functional currency of the Company is the United States dollar. The financial statements are presented in United States dollars.

2 Basis of Preparation and Significant Accounting Policies

(a) Basis of Accounting

For all periods up to and including the year ended December 31, 2021, the Company prepared its financial statements in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities. These financial statements for the year ended December 31, 2022 are the first the Company has prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). Considering prospective changes to the recognition, measurement and presentation of insurance contracts under IFRS standards, management has concluded that US GAAP is a more meaningful and useful reporting basis for the users of financial statements of Lumen Re Ltd.

In preparing these financial statements, the Company's opening Balance Sheet was prepared as at January 1, 2022, the Company's date of transition to US GAAP. The estimates at January 1, 2021 and at December 31, 2021 are consistent with those made for the same dates in accordance with IFRS.

The preparation of financial statements in conformity with US GAAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Although these estimates are based on management's best knowledge of current events and conditions, actual results could differ from these estimates. The area involving a higher degree of judgement and or complexity, or area where assumptions and estimates are significant to the financial statements is provisions for loss reserves. This is disclosed further in item (l) below. No prior-period information has been retrospectively adjusted. There has been no change on income from continuing operations, net income and no impact to the cumulative effect of the change on retained earnings or other components of equity or net assets in the Balance Sheet as of the beginning of the earliest period presented.

(b) Fair Value Measurements

Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820, "Fair Value Measurement and Disclosure", provides a framework for measuring fair value by creating a hierarchy of fair value measurements that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity. The guidance further expands disclosures about such fair value measurements. The guidance applies broadly to most existing accounting pronouncements that require or permit fair value measurements (including both financial and non-financial assets and liabilities) but does not require any new fair value measurements. The Company has adopted all authoritative guidance in effect as of the Balance Sheet date regarding certain market conditions that allow for fair value measurements that incorporate unobservable inputs where active market transaction based measurements are unavailable.

(c) Foreign Exchange

The financial statements are presented in United States dollars which is the Company's functional currency. Foreign currency transactions are converted using the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rate in effect at the Balance Sheet date. Foreign exchange gains and losses resulting from the revaluation and settlement of these assets and liabilities are recognized in the Statements of Income / (Loss) and Comprehensive Income / (Loss).

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. These amounts have an original maturity of 90 days or less.

(e) Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents serves as collateral, assigned as security for the Company's obligations under the various reinsurance contracts and for the business written on the Company's rated paper. The underlying balances are held in either money market funds or treasury bills to secure the aggregate amount of coverage. Money market funds are classified as Level 1.

(f) Restricted Trading Securities, at Fair Value

Restricted trading securities serve as collateral, assigned as security for the Company's obligations under the various reinsurance contracts and for the business written on the Company's rated paper. The underlying balances are held in either money market funds or treasury bills to secure the aggregate amount of coverage provided. Restricted investments are measured at fair value with realized and unrealized gains included within Net Investment Income in the Statements of Income / (Loss) and Comprehensive Income / (Loss).

(g) Trading Securities, at Fair Value

Trading securities serve as collateral, assigned as security for the Company's obligations under the various reinsurance contracts and for the business written on the Company's rated paper. The underlying balances are held in either money market funds or treasury bills to secure the aggregate amount of coverage provided. Investments are measured at fair value with realized and unrealized gains (losses) included within Net Investment Income in the Statements of Income (Loss) and Comprehensive Income (Loss).

All trading securities transactions are recorded on a trade date basis and are valued using pricing data received from third parties.

Net investment income includes gains on restricted cash and cash equivalents; gains on restricted trading securities, unrealized gains / (loss) on trading securities; gains ceded to Secundum Re and interest income / (loss) on cash and cash equivalents.

(h) Premium Receivable

Premium receivable is recorded at face value less repayments and impartments if applicable.

(i) Reinsurance

The Company entered into a retrocession agreement with Secundum Re in order to mitigate its accumulation of loss, reduce its liability on individual risks, enable it to underwrite policies with higher limits and increase its aggregate capacity. Premiums ceded are recognized over the period of exposure to risk, with the unearned portion being deferred in the Balance Sheet as prepaid reinsurance.

Unpaid losses and loss adjustment expenses recoverable are recorded at face value and represent amounts that will be collectible from Secundum Re once the losses are paid. Unpaid losses and loss adjustment expenses recoverable on paid losses represents amounts currently due from reinsurers. The recognition of unpaid losses and loss adjustment expenses recoverable requires two key judgments: Firstly, the determination of gross assumed IBNR, and secondly the amount of gross IBNR that can be ceded to Secundum Re based on the reinsurance agreements in place. The Company is not relieved of its primary obligation to the policyholder in this reinsurance transaction

(j) Revenue Recognition

Premiums are recognised as revenue upon inception of the reinsurance contracts and are earned by applying exposure earning profiles per the assumed risk.

(k) Reinsurance Premiums Ceded

Premiums ceded are recognised as expenditure upon inception applying exposure expense profiles per the risk ceded. Premiums ceded represent reinsurance protection purchased by the Company.

(l) Deferred Acquisition Costs

Acquisition expenses are costs that vary with, and are directly related to, the successful acquisition of new or renewal business and consist principally of commissions' expenses, brokerage costs and premium tax expenses. These costs are deferred and amortized over the periods in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums.

If the sum of a contract's expected losses and loss expenses and deferred acquisition costs exceeds related unearned premiums, a premium deficiency is determined to exist. In this event, deferred acquisition costs are immediately expenses to the extent necessary to eliminate the premium deficiency. If the premium deficiency exceeds deferred acquisition costs then a liability is accrued for the excess deficiency. There were no premium deficiency adjustments recognized during the period presented herein.

(m) Insurance Reserves

These consist of the following:

- Unearned premium

  Written premiums for future periods are accrued in unearned premiums.

- Reserve for losses and loss adjustment expenses

  Reserve for losses and loss adjustment expenses are recorded based on recommendations of LGT ILS. All provisions are periodically reviewed and evaluated by the Underwriting Unit of the Company. LGT ILS is in constant contact with the brokers and counterparties of each of the Company's reinsurance contracts. AIR Worldwide modelling is used on the portfolio and percentages are used to calculate reserves on contracts with losses. The Board of Directors believes that the amount provided is adequate to cover the ultimate net cost of losses incurred to the Balance Sheet date. However, estimating claims is, by its very nature, subject to uncertainty. Ongoing estimates will change and ultimately settlement of claims may deviate, perhaps substantially from amounts provided. Adjustments to provisions will be reflected in income during the period they are determined.

- Reinsurance balances payable

  Reinsurance balances payable are calculated according to the terms of the retrocession contract with Secundum Re.

(n) Recent Accounting Pronouncements

Recently issued Accounting Pronouncements not yet adopted

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12 Simplifying the Accounting for Income Taxes which simplifies accounting for income taxes, changes the accounting for certain income tax transactions and makes minor improvements to the accounting guidance. This guidance is effective for annual reporting periods beginning after December 15, 2021 for private companies. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

In June 2016 the FASB issued ASU 2016-13 Measurement of Credit Losses on Financial Instruments (further clarified in November 2019 ASU 2019-11 Codification Improvements Financial Instruments – Credit Losses), which updated accounting guidance that replaces the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to record credit loss estimates. The guidance is effective for annual periods beginning after December 15, 2022 for private companies. Early adoption is permitted for annual reporting periods beginning after December 15, 2018. This guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

3 Cash and cash equivalents

Cash and cash equivalents are comprised of cash held in accounts with HSBC Bank Bermuda Limited and Credit Suisse (Switzerland) Ltd. These amounts have an original maturity of 90 days or less.

4 Restricted cash and cash equivalents

Restricted cash and cash equivalents refer to the trust account balances held in money market funds at Computershare (f.k.a. Wells Fargo Bank) and Bank of New York Mellon Corporation.

This restricted cash is for the purpose of collateralising business written on a fully funded basis.

5 Reinsurance balances payable – Secundum Re

Through the Company's participation in a fully funded variable quota share agreement with Secundum Re, this balance represents the funding provided by Secundum Re to fully fund the portion of the insurance obligations to the various cedants that are then retroceded to Secundum Re.

6 Investment information

(a) Trading securities, at fair value

The Company's trading securities, at fair value at December 31, 2022 and 2021 are as follows:

2022 (expressed in USD)	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government treasuries	180,203,500	618,198	-	180,821,698
Total	**180,203,500**	**618,198**	**-**	**180,821,698**

2021 (expressed in USD)	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government treasuries	67,813,221	2,750	–	67,815,971
Non-U.S. sovereign governments and supranationals	45,145,206	–	(131,177)	45,014,029
Total	**112,958,427**	**2,750**	**(131,177)**	**112,830,000**

(b) Restricted trading securities, at fair value

The restricted trading securities, at fair value are made up of investments that are for the purpose of collateralising business written on a fully funded basis and the equity investment of the Company.

The Company's restricted trading securities, at fair value at December 31, 2022 and 2021 are as follows:

2022 (expressed in USD)	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government treasuries	1,019,611,015	8,095,883	-	1,027,706,898
Non-U.S. sovereign governments and supranationals	543,735,910	1,331,658	(254,312)	544,813,256
Total	**1,563,346,925**	**9,427,541**	**(254,312)**	**1,572,520,154**

2021 (expressed in USD)	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government treasuries	2,025,677,264	187,487	-	2,025,864,751
Non-U.S. sovereign governments and supranationals	567,459,742	-	(3,063,529)	564,396,213
Total	**2,593,137,006**	**187,487**	**(3,063,529)**	**2,590,260,964**

Credit ratings for (restricted) trading securities and restricted cash equivalents held by the Company as at December 31, 2022 range from A-1+ to A- (2021: A-1+ to A-) as set out by Standard and Poor's.

2022 (expressed in USD)	**Fair Value**	**A-1+**	**A-**
Restricted cash and cash equivalents	254,664,092	254,664,092	
Trading securities, at fair value	180,821,698	180,821,698	
Restricted trading securities, at fair value	1,572,520,154	1,554,194,777	18,325,377
Total	**2,008,005,944**	**1,989,680,567**	**18,325,377**

2021 (expressed in USD)	**Fair Value**	**A-1+**	**A-**
Restricted cash and cash equivalents	374,315,472	374,315,472	
Trading securities, at fair value	112,830,000	98,063,919	14,766,081
Restricted trading securities, at fair value	2,590,260,964	2,557,855,485	32,405,479
Total	**3,077,406,436**	**3,030,234,876**	**47,171,560**

Net investment income contains the realized and unrealized gains on the restricted and unrestricted investments and the interest earned on cash and cash equivalents. The following table shows the balances contained within:

	2022 USD	**2021** USD
Gain on restricted cash and cash equivalents	2,852,151	181,437
Gain on restricted trading securities, at fair value	13,437,556	981,828
Unrealised gain / (loss) on trading securities, at fair value	727,732	247,757
Net gain ceded to Secundum Re Ltd.	(14,516,852)	(854,204)
Interest on cash and cash equivalents	166,903	(417,289)
Net investment income	**2,667,490**	**139,529**

(expressed in USD)

The portion of trading gains and losses for the period relating to trading securities still held at December 31, 2022 and 2021:

	2022 USD	**2021** USD
Net gains and losses recognized during the period on trading securities and restricted securities	14,165,288	1,229,585
Less: net gains and losses recognized during the period on trading securities and restricted securities sold during the period	(3,865,237)	(4,234,054)
Unrealized gains and losses recognized during the reporting period on trading securities and restricted securities still held at the reporting date	**10,300,051**	**(3,004,469)**

7 Fair Value

Accounting guidance over fair value measurements requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and / or the risks inherent in the inputs to the model. The fair value of a financial instrument is the amount that would be received to sell as asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the ‘exit price’). Instruments that the Company owns are marked to bid prices. Fair value measurements are not adjusted for transaction costs.

(a) Basis of Fair Value Measurements

Fair value measurement accounting guidance also establishes a fair value hierarchy that prioritizes the inputs to the respective valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). An asset or liability’s classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The three levels of the fair value hierarchy are:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date:
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3 – Inputs that are both significant to the fair value measurement and unobservable.

Details on assets and liabilities that have been included under the requirements of authoritative guidance on fair value measurements to illustrate the bases for determining the fair values of these items held by the Company are included in each respective section of this significant accounting policies note.

(b) Valuation Techniques

There have been no material changes in the Company's valuation techniques during the periods presented in these Financial Statements. The following methods and assumptions were used in estimating the fair value of each class of financial instrument recorded in the Balance Sheet.

(c) Trading securities, at fair value and Restricted trading securities, at fair value

The techniques generally used to determine the fair value of the Company's trading securities, at fair value and Restricted trading securities, at fair value are detailed below by asset class.

(d) U.S. Government Treasuries

U.S. government treasuries consist primarily of debt securities issued by the U.S. Treasury. trading securities, at fair value included in U.S. government and government agency securities are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The fair value of each security is individually computed using analytical models which incorporate option adjusted spreads and other daily interest rate data. On-the-Run U.S. Treasury issuances are considered Level 1 given the availability of quoted prices in active markets.

(e) *Non-U.S. Government and Government Agency*

Non-U.S. government and government agency securities consist of debt securities issued by non-U.S. governments and their agencies along with supranational organizations (also known as sovereign debt securities). Securities held in these sectors are primarily priced by pricing services who employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high issuance credits. The pricing services then apply a credit spread for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets. Bills, Bonds and Notes issued from Australia, Germany, Japan, and the United Kingdom within one year of the Balance Sheet date are considered Level 1 given the availability of quoted prices in active markets.

As at December 31, 2022 and 2021, the Company’s investments were allocated to Level 1 only.

(expressed in USD)

8 Reserves for Losses and Loss Adjustment Expenses

The following table provides a roll forward of the unpaid losses and loss adjustment expenses (**"**LAE") for the year ended December 31, 2022 and 2021:

	2022 USD	**2021** USD
Gross unpaid loss and loss expense at beginning of year	841,516,223	426,016,808
Less: Reinsurance recoverable on unpaid losses at beginning of year	(746,549,834)	(374,654,801)
Net unpaid loss and loss expense at beginning of year	**94,966,389**	**51,362,007**
Net losses and loss expenses incurred in respect of losses occurring in:		
Current year	36,144,662	52,081,671
Prior years	7,361,783	23,440,000
Total net losses and loss expenses incurred	**43,506,445**	**75,521,671**
Net losses and loss expenses paid or payable in respect of losses occurring in:		
Current year	(1,573,344)	(7,474,840)
Prior years	(31,975,703)	(23,423,673)
Total losses and loss expenses paid or payable	**(33,549,047)**	**(30,898,513)**
Less: Foreign exchange revaluation	(2,791,075)	(1,018,776)
Net unpaid loss and loss expense at end of year	**102,132,712**	**94,966,389**
Add: Reinsurance recoverable at end of year	722,352,071	746,549,834
Gross unpaid loss and loss expense at end of year	**824,484,783**	**841,516,223**

The current year net incurred losses and loss expenses of USD 43,506,445 (2021: USD 75,521,671) are losses net of ceded contracts to the fully funded quota share with Secundum Re.

Net unfavorable prior year development of USD 7,361,783 for the year ended December 31, 2022 was comprised of USD 7,361,783 of unfavorable prior year development for property catastrophe risk.

Net unfavorable prior year development of USD 23,440,000 for the year ended December 31, 2021 was comprised of USD 23,440,000 of unfavorable prior year development for property catastrophe risk.

9 Short Duration Contracts

(a) Assumptions and methodology

The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Uncertainty over both the timing and the amount of future claim payments necessitate the holding of significant reserves for liabilities that may only emerge a number of accounting periods later.

Reserve for losses and loss adjustment expenses (which includes provisions for unpaid and unreported claims) are recorded based on recommendations of LGT ILS. All provisions are periodically reviewed and evaluated by the Underwriting Unit of the Company. LGT ILS is in constant contact with the brokers and counterparties of each of the Company's reinsurance contracts. AIR Worldwide modelling is used on the portfolio and percentages are used to calculate reserves on contracts with losses. The Board of Directors believes that the amount provided is adequate to cover the ultimate net cost of losses incurred to the Balance Sheet date. However, estimating claims is, by its very nature, subject to uncertainty. Ongoing estimates will change and ultimately settlement of claims may deviate, perhaps substantially from amounts provided. Adjustments to provisions will be reflected in income during the period they are determined.

There have been no significant changes in the assumptions or methodology underlying the actuarial analysis in the year under review.

(b) *Risk Management*

The Company has policies and procedures in place to reduce the risk exposure, which include strict claims review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims. Further, the Company enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of its retrocession arrangement with Secundum Re in order to limit exposure to catastrophic events (e.g. hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Group's risk appetite as determined by Management.

Estimates of losses are continually reviewed and modified to reflect current conditions. Although Management believes, based on recommendations of LGT ILS, that the provision for unpaid and unreported claims will be adequate to cover the ultimate losses to the date of the financial statements, the provision is necessarily an estimate and claims may ultimately be settled for greater or lesser amounts. It is reasonably possibly that Management will revise this estimate significantly in the near term. Any subsequent differences are recorded in the period in which they are determined.

(c) *Claims Development and Frequency*

As stated in Note 2, Reserves for losses and loss adjustment expenses are recorded based on the recommendations of LGT ILS, but are reviewed, challenged and approved by the Company's Underwriting Unit. Net property catastrophe reinsurance loss reserves of USD 102,132,712 were recorded at December 31, 2022 (2021: USD 94,966,389). The information provided herein about incurred and paid accident year claims development, net of reinsurance, for the years ended prior to December 31, 2022 and the annual percentage pay-outs of incurred claims by age, net of reinsurance, is presented as supplementary information. For incurred and paid accident year claims denominated in foreign currency, the Company used the current year-end Balance Sheet foreign exchange rate for all periods provided, thereby eliminating the effects of changes in foreign currency translation rates from the incurred and paid accident year claims development information included in the tables overleaf.

Note that whilst the Company was only established in 2017, it took on some reserves on a run-off basis from an associated entity. The majority of such reserves have been ceded to Secundum Re, whilst some are retained. Hence, the following loss triangles show reserves for events that occurred prior to the Company's establishment.

Incurred claims and allocated claims adjustment expenses, net of reinsurance (denominated in USD millions, as of December 31, 2022)

	Unaudited												
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**IBNR[1]**
2011 and prior	–	–	–	–	–	–	–	–	–	–	–	–	–
2012	–	–	–	–	–	–	–	–	–	–	–	–	–
2013	–	–	–	–	–	–	–	–	–	–	–	–	–
2014	–	–	–	–	–	–	–	–	–	–	–	–	–
2015	–	–	–	–	–	–	–	–	(0.2)	(0.3)	(0.3)	(0.3)	(0.2)
2016	–	–	–	–	–	–	–	–	–	–	–	–	(2.8)
2017	–	–	–	–	–	–	1.8	1.8	0.9	1.2	1.1	1.1	0.2
2018	–	–	–	–	–	–	–	18.1	21.8	19.6	19.9	19.3	(2.5)
2019	–	–	–	–	–	–	–	–	20.5	25.1	23.5	21.3	(0.7)
2020	–	–	–	–	–	–	–	–	–	36.7	52.5	56.3	3.2
2021	–	–	–	–	–	–	–	–	–	–	61.3	67.5	3.1
2022	–	–	–	–	–	–	–	–	–	–	–	36.1	12.4
Sub–Total	**–**	**–**	**–**	**–**	**–**	**–**	**1.8**	**19.9**	**43.0**	**82.3**	**158.0**	**201.3**	**12.7**

[1] Incurred but Not Reported Liabilities, Net of Reinsurance

Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance (denominated in USD millions, as of December 31, 2022)

	Unaudited											
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
2011 and prior	–	–	–	–	–	–	–	–	–	–	–	–
2012	–	–	–	–	–	–	–	–	–	–	–	–
2013	–	–	–	–	–	–	–	–	–	–	–	–
2014	–	–	–	–	–	–	–	–	–	–	–	–
2015	–	–	–	–	–	–	–	-	(0.1)	(0.1)	(0.1)	(0.1)
2016	–	–	–	–	–	–	–	-	-	-	-	-
2017	–	–	–	–	–	–	–	–	(0.6)	(0.7)	(0.8)	(0.9)
2018	–	–	–	–	–	–	–	(0.5)	(12.1)	(13.5)	(14.9)	(15.5)
2019	–	–	–	–	–	–	–	–	(1.0)	(10.5)	(14.1)	(14.8)
2020	–	–	–	–	–	–	–	–	–	(8.9)	(23.8)	(33.8)
2021	–	–	–	–	–	–	–	–	–	–	(10.9)	(31.5)
2022	–	–	–	–	–	–	–	–	–	–	–	(1.6)
Sub–Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**(13.8)**	**(33.7)**	**(64.6)**	**(98.2)**
							Foreign exchange revaluation					(1.0)
							Reserve for losses and loss adjustment expenses					**102.1**

The following table presents the average annual percentage pay-out of incurred losses and allocated loss adjustment expenses by age, net of reinsurance, as of December 31, 2022:

Average annual percentage pay-out of incurred claims (Unaudited)

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
3.9%	14.7%	7.2%	2.4%	0.7%	0.0%

The Company does not include claim count information in our short duration triangles for reinsurance. A significant percentage of our reinsurance business is written on a treaty basis, for which individual loss information is typically unavailable.

(expressed in USD)

The following table represents a reconciliation of the disclosures of net incurred and paid loss development tables to the reserve for losses and loss adjustments at December 31, 2022:

	2022 USD
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance: Property catastrophe reinsurance	102,132,712
Total reinsurance recoverable on unpaid claims: Property catastrophe reinsurance	722,352,071
Total gross liability for unpaid claims and claims adjustment expense:	**824,484,783**

10 Income Taxes and Uncertain Tax Positions

The Company provides for income taxes based upon amounts reported in the financial information and the provisions of currently enacted tax laws. The Company is registered in Bermuda and is subject to Bermuda law with respect to taxation. Under current Bermuda law, the Company is not taxed on any Bermuda income or capital gains taxes and has received an undertaking from the Bermuda Minister of Finance that, in the event of any Bermuda income or capital gains taxes being imposed, the Company will be exempt from those taxes until March 31, 2035. At the present time no such taxes are levied in Bermuda.

11 Common and Preferred Shareholders' Equity

(a) Authorized and issued

The authorised and issued ordinary share capital of the Company is USD 1, issued to Pargen Stiftung.

The authorised non-voting share capital of the Company is USD 400,000,000 with a par value of USD 1 per share. On January 1, 2022 and on December 1, 2022 the Company accepted capital from additional investors, while at the same time the LGT (Lux) II – ILO Fund slightly decreased its holdings. As a result, during 2022 there was a total share buy-back of 41,100,592 non-voting shares worth USD 42,499,999 and a total share issuance of 84,601,829 non-voting shares worth USD 87,498,417 to Lumen Holding LP. As a result, the issued non-voting shares increased from USD 310,000,001 to USD 353,501,238 as at December 31, 2022 with Contributed surplus of USD 1,497,181 (2021: USD NIL).

(b) Dividends

The Company did not declare any dividends during the year ended December 31, 2022 (2021: USD NIL).

12 Related Party Transactions

Artex Risk Solutions (Bermuda) Ltd. ("Artex") provides certain management services to the Company. Scott Cobon, Executive Vice President of Artex, served as director of the Company during the year without fee. Management fees included in general and administrative expenses for the year ended December 31, 2022 totalled USD 641,112 (2021: USD 693,750). The Company participates in a fully funded quota share agreement with Secundum Re. As part of this agreement the following balances have been ceded from the Company to Secundum Re:

(expressed in USD)

	2022 USD	2021 USD
Balance Sheets		
Assets		
Prepaid reinsurance	13,065,773	21,144,432
Unpaid losses and loss adjustment expenses recoverable	722,352,071	746,549,834
Liabilities		
Reinsurance balances payable	1,595,928,293	2,752,328,389
Ceded deferred acquisition costs	1,380,093	–
Statements of Income / (Loss) and Comprehensive Income / (Loss)		
Reinsurance premium ceded	(176,568,462)	(297,216,260)
Other insurance income	6,878,076	11,490,993
Net change in unearned premium	(8,078,660)	924,828
Losses and loss adjustment expenses	221,964,763	530,740,802
Acquisition costs	17,166,136	29,999,995
Net Investment income	(14,516,852)	(854,204)

The Company and Secundum Re have a common ownership by Pargen Stiftung.

LGT ILS provides certain advisory services to the Company.

The Company paid Director’s Fees and Consultancy fees of USD 82,500 (2021: USD 90,000) during the year.

13 Commitments and Contingencies

The Company has a USD 300,000,000 credit facility granted by Credit Suisse (Switzerland) Ltd., the purpose of which is to issue letters of credit and to hedge its foreign exchange risk.

14 Regulatory requirements

From December 4, 2013 to April 30, 2017 the Company was registered as a Special Purpose Insurer pursuant to the Act.

On May 1, 2017 the Company obtained a Class 3A license in accordance with the Act. As at December 31, 2022 the Company recorded net premium written exceeding the USD 50,000,000 threshold defined within the Act as the limit for a Class 3A reinsurer and with this the Company meets the requirements of a Class 3B reinsurer. The Company has been in communication with the Bermuda Monetary Authority in regard to this matter and has received a written approval to file the Statutory Financial Statements as of December 31, 2022, as a Class 3B reinsurer. The Company is in the process of submitting a notification to the BMA to formally register as a Class 3B reinsurer pursuant to the Act. The paid-up share capital of USD 353,501,238 is categorized as Tier 1 capital in accordance with the Eligible Capital Rules, of the Act.

The Company is required to annually prepare and file a statutory financial return with the Bermuda Monetary Authority (“BMA”). The Act also requires that the Company maintain minimum share capital of USD 1 million and must ensure that the value of our general business assets exceeds the amount of our general business liabilities by an amount greater than the prescribed minimum solvency margins and enhanced capital requirement pertaining to its general business. At December 31, 2022 and 2021, all such requirements were met.

The Company is also required to file a quarterly regulatory risk-based capital model that measures risks and determines enhanced capital requirements and a target capital level. In addition, all Class 3B Bermuda insurers must prepare and file with the BMA audited US GAAP basis annual financial statements, which must be made publicly available. Declarations of dividends from retained earnings and distributions from Contributed surplus are subject to these requirements being met. For all applicable periods presented herein, the Company satisfied these requirements.

The Bermuda Companies Act 1981 limits the Company's ability to pay dividends and distributions to shareholders if there are reasonable grounds for believing that: (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the Company's assets would thereby be less than the aggregate of our liabilities and issued share capital and share premium accounts. Under the Act, the Company is restricted with respect to the payment of dividends. The Company is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus unless the Company files, at least seven days before payment of such dividends, with the Bermuda Monetary Authority an affidavit stating that the Company will continue to meet the required margins. In addition, the Company is prohibited, without prior approval of the Bermuda Monetary Authority, from reducing by 15% or more of its total statutory capital, as set out in our previous year's statutory financial statements.

In addition, Bermuda regulations include certain restrictions on the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities. For the year ended December 31, 2022, the Company paid no dividends.

The statutory capital and surplus for the Company was USD 364,586,868 and USD 317,642,542 at December 31, 2022 and 2021, respectively, and statutory income / (loss) was USD 1,945,908 and USD (32,343,872), respectively. Statutory capital and surplus and net income determined in accordance with statutory accounting practices were not significantly different than the amounts determined under GAAP.

15 Subsequent Events

On March 19, 2023, Credit Suisse Group AG and UBS Group AG entered into an agreement and plan of merger (the **"**merger**"**), to be completed at a date yet to be determined. The Company maintains custody accounts with its primary custodian, Credit Suisse (Switzerland) Ltd. (the "Custodian") who held the majority of the cash and cash equivalents, fixed maturity investments of the Company at December 31, 2022 and through which the Company has an existing letter of credit facility. The Custodian is a subsidiary of Credit Suisse Group AG, and as such may be impacted as a result of the merger.

In 2023 the Company's voting share will be transferred from Pargen Foundation to Lumen Investments Ltd. The ultimate beneficial owner of the current and future voting shareholder is identical. Consequently, there will be no change of control. The share transfer is subject to approval by the BMA, which is expected in early Q2 2023.

The Company has completed its subsequent events evaluation for the period subsequent to the Balance Sheet date of December 31, 2022 through April 12, 2023, the date the financial statements were available to be issued, and concluded that other than the events noted above there are no subsequent events requiring recognition or disclosure.