R&Q Re (Bermuda) Ltd.
Consolidated Financial Statements

For the year ended December 31, 2022
(Expressed in US Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholder,

R&Q Re (Bermuda) Ltd.

Opinion

We have audited the consolidated financial statements of R&Q Re (Bermuda) Ltd. (the "Company") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of loss and other comprehensive loss, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to note 2.1 in the consolidated financial statements, which indicates that the going concern basis is conditional on the Company's ability to generate sufficient working capital to fund ongoing business operations and to repay its borrowings, which mature on December 22, 2023. The Company is reliant upon the support of its ultimate parent company, R&Q Insurance Holdings Ltd. ("RQIH"), to provide such capital funding to fulfil these requirements. RQIH has finalized a legal reorganisation and is in the process of selling its Accredited Program Management business, which should give rise to substantial cash proceeds. At the date of signing of these consolidated financial statements RQIH has not yet completed this sale, therefore there is a material uncertainty that the sale will ultimately be completed, however RQIH has received interest from a number of parties which indicate that it is probable that the sale process would be successful. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITORS' REPORT *(continued)*

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

Cedar House, 41 Cedar Avenue, 4th Floor, Hamilton HM 12, Bermuda
P.O. Box HM 1614, Hamilton, HM GX, Bermuda
Tel: 441 292 3862, Email: info@mazars.bm

INDEPENDENT AUDITORS' REPORT *(continued)*

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Mazars Limited

CHARTERED PROFESSIONAL ACCOUNTANTS
Hamilton, Bermuda
June 20, 2023

R&Q Re (Bermuda) Ltd.
Consolidated Statement of Financial Position
As at December 31, 2022
(Expressed in United States Dollars)

	Note	2022 $	2021 $
Assets			
Intangible asset	16	582,555	717,810
Financial assets	3	89,669,907	258,977,309
Funds withheld	10	86,273,915	56,151,950
Reinsurers' share of loss and loss expense provisions	4	10,497,969	4,610,336
Insurance balances receivable	10	559,998	1,227,471
Intercompany loans and receivables	10	50,595,829	52,396,754
Other receivables		257,785	226,128
Prepayments and accrued income		1,194,748	2,295,119
Cash and cash equivalents	17	10,699,236	9,967,532
Total assets		**250,331,942**	**386,570,409**
Liabilities			
Loss and loss expense provisions	5	165,979,425	246,238,009
Insurance and reinsurance payables	5	7,003,474	10,658,079
Other payables and accruals	11	4,448,330	14,546,401
Borrowings	14	19,942,857	19,885,714
Total liabilities		**197,374,086**	**291,328,203**
Equity			
Share capital	15	138,900	138,900
Contributed surplus	15	77,737,327	63,503,459
(Accumulated deficit) Retained earnings		(24,918,371)	31,599,847
Total equity attributable to the owner		**52,957,856**	**95,242,206**
Total liabilities and equity		**250,331,942**	**386,570,409**

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

Approved for issuance on behalf of the Board of Directors of R&Q Re (Bermuda) Ltd. on June 20, 2023 by:

Director

Director

R&Q Re (Bermuda) Ltd.
Consolidated Statement of Loss and Other Comprehensive Loss
For the year ended December 31, 2022
(Expressed in United States Dollars)

	Note	2022 $	2021 $
Insurance premium written		54,826,015	2,033,851
Reinsurance premium ceded		(1,125,000)	(2,625,000)
Net insurance premium income (expense)		53,701,015	(591,149)
Investment income	9	4,018,558	2,060,427
Total revenue		**57,719,573**	**1,469,278**
Insurance claim and loss adjustment expenses		64,059,876	11,863,404
Acquisition costs		261,897	225,001
Insurance benefits and claims		64,321,773	12,088,405
Realised losses on financial assets	9	29,260,368	1,683,376
Foreign exchange losses		7,589,728	2,356,970
Operating expenses	6	11,180,722	9,204,587
Total expenses		**112,352,591**	**25,333,338**
Results of operating activities		**(54,633,018)**	**(23,864,060)**
Other income	19	-	349,381
Finance costs	20	(1,885,200)	(1,627,252)
Loss and comprehensive loss for the year, all attributable to the owner		**(56,518,218)**	**(25,141,931)**

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

R&Q Re (Bermuda) Ltd.
Consolidated Statement of Changes in Equity
For the year ended December 31, 2022
(Expressed in United States Dollars)

		Attributable to the owner			
	Note	Share Capital $	Contributed Surplus $	(Accumulated Deficit) Retained Earnings $	Total $
At January 1, 2021	15	138,900	63,503,459	56,741,778	120,384,137
Total comprehensive loss for the year:					
Loss for the year		-	-	(25,141,931)	(25,141,931)
Total comprehensive loss for the year		-	-	(25,141,931)	(25,141,931)
Transactions with owners:					
Additional paid-in capital	15	-	-	-	-
Total transactions with owners		-	-	-	-
At December 31, 2021	15	138,900	63,503,459	31,599,847	95,242,206
Total comprehensive loss for the year:					
Loss for the year		-	-	(56,518,218)	(56,518,218)
Total comprehensive loss for the year		-	-	(56,518,218)	(56,518,218)
Transactions with owners:					
Increase in contributed surplus on novation	15	-	14,233,868	-	14,233,868
Total transactions with owners		-	14,233,868	-	14,233,868
At December 31, 2022	15	138,900	77,737,327	(24,918,371)	52,957,856

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

R&Q Re (Bermuda) Ltd.
Consolidated Statement of Cash Flows
For the year ended December 31, 2022
(Expressed in United States Dollars)

	Note	2022 $	2021 $
Cash flows from operating activities			
Net loss for the year		(56,518,218)	(25,141,931)
Adjust for non-cash and non-operating items			
Non-cash settlement of balances on commutation	21	83,028,501	-
Bargain purchase gain	19	-	(349,381)
Amortisation	6	192,398	404,333
Net change in unrealised losses	9	3,599,032	6,058,258
Financing costs	20	1,885,200	1,627,252
Changes in assets and liabilities			
Funds withheld		(13,164,233)	170,185,554
Reinsurer's share of loss and loss expense provisions		(5,887,633)	(4,012,165)
Insurance balances receivable		667,474	161,144,266
Intercompany loans and receivables		1,800,925	(12,362,868)
Other receivables, prepayments and accrued income		(165,471)	(900,392)
Loss and loss expense provisions		(93,078,394)	(204,518,317)
Insurance and reinsurance payables		(3,975,355)	7,288,956
Other payables and accruals		(10,098,072)	(4,030,079)
Cash (used in) generated by operating activities		**(91,713,846)**	**95,393,486**
Cash flows from investing activities			
Net cash acquired in novations		1,538,049	-
Net cash acquired in business acquisitions	19	-	346,246
Proceeds on maturity, sales and paydowns of financial assets		108,978,815	162,358,933
Purchases of financial assets		(34,341,196)	(286,238,906)
Effect of exchange rate fluctuations on investing activities		18,155,082	5,976,388
Cash provided by (used in) investing activities		**94,330,750**	**(117,557,339)**
Cash flows from financing activities			
Finance costs paid	20	(1,885,200)	(1,627,252)
Cash used in financing activities		**(1,885,200)**	**(1,627,252)**
Net increase (decrease) in cash and cash equivalents		731,704	(23,791,105)
Cash and cash equivalents at beginning of the year		9,967,532	33,758,637
Cash and cash equivalents at the end of the year		**10,699,236**	**9,967,532**
Represented by:			
Cash at Lloyd's		76,390	364,041
Other funds		10,622,846	9,603,491
Cash and cash equivalents at the end of the year		**10,699,236**	**9,967,532**

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

1. Company information

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

2 Church Street
Hamilton HM 11
Bermuda

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

On December 31, 2019, the Company purchased 100% of the share capital of Distinguished Re Ltd ("Distinguished Re", a Barbados limited liability company), from Distinguished LLC.

On September 28, 2021, Distinguished Re purchased 100% of the share capital of Oleum Insurance Company Limited ("Oleum"), a Barbados insurance company in run-off. Oleum was merged into Distinguished Re effective December 29, 2021.

On August 26, 2021, the Company entered into an agreement with a related party to commute one of its assumed reinsurance agreements, where the subject business was to be subject to an insurance business transfer to another entity within the R&Q Group. On September 30, 2021, the Company entered into an agreement to terminate its reinsurance of Randall & Quilter Lloyd's corporate members supporting underwriting activities through Lloyd's syndicates.

On December 31, 2021, the Company entered into a commutation agreement with one of its reinsurers.

During the year ended December 31, 2022, the Company entered into two reinsurance transactions (2021 – one), which were with related parties (2021: with a related party). The insurance liabilities assumed are primarily related to general and employers' liability (2021: US casualty risks).

During the year ended December 31, 2022, in connection with a Part VII Transfer in the UK, two books of third-party business previously assumed by the Company were transferred to two companies under common control. Subsequent to this transfer, the Company provided one of those companies with a 50% quota share reinsurance protection on the same book of business, that was effective December 22, 2022.

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

The Company's consolidated financial statements have been authorised for issue by the Board of Directors on June 20, 2023.

2. Significant accounting policies

2.1. Basis of preparation

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

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

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

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

Consolidation

The consolidated financial statements incorporate the financial statements of the Company, and entities controlled by the Company (its subsidiaries), for the years ended December 31, 2022 and 2021. Control exists when the Company is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Company takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

Going concern

These consolidated financial statements have been prepared on a going concern basis, which is conditional upon the continued support of RQIH. The Company has sufficient net assets to meet its minimum solvency margin and enhanced capital requirement as of December 31, 2022. An aspect of the going concern assumption is the Company's continued ability to generate sufficient capital to fund ongoing business operations and to repay the Subordinate

Notes (see note 14), which mature on December 22, 2023. The Company anticipates its ultimate parent, RQIH will provide such capital to fulfil the requirements.

On April 4, 2023, RQIH announced intentions to undergo a legal reorganisation to separate its Accredited Program Management ("Accredited") and Legacy Insurance businesses followed by strategic transactions with third parties to achieve its objectives. The strategic transactions may include capital raises through issuance of preferred shares and sale of Accredited. As at the date of issuance of these consolidated financial statements, RQIH raised capital through the issuance of $50m preferred shares and is in the process of selling its Accredited Program Management business, which it expects to close by the end of 2023. Assuming RQIH completes the sale of Accredited as expected in 2023, the Company's financial position and forecasts for 2023 and 2024 demonstrate that upon receipt of the required funding from RQIH it would have adequate capital to meet its liabilities as they fall due.

Given the above factors, the Board of Directors have a reasonable expectation that the Company will be able to continue business operations for the foreseeable future. For the purposes of these consolidated financial statements, the foreseeable future represents a minimum of twelve months from the date upon which the Board of Directors approves the issuance of these consolidated financial statements.

New and amended standards adopted by the Company

There are no new standards, amendments to standards or interpretations that are effective for annual periods beginning after January 1, 2022 that have a material effect on the consolidated financial statements of the Company.

New and amended standards yet to be adopted by the Company

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2022 and have not been applied in the preparation of these consolidated financial statements. Those which are relevant to the consolidated financial statements of the Company are as follows:

- IAS 1, "Classification of Liabilities as Current or Non-Current": The amendments, issued in January 2020, provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments were originally effective for annual reporting periods beginning on or after January 1, 2022, however, their effective date has been delayed to January 1, 2024. Early application is permitted.

- IAS 1, "Presentation of Financial Statements": The amendments, issued in February 2021, are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023. Early application is permitted.

- IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors": The amendments, issued in February 2021, introduce the definition of an accounting estimate and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early application is permitted.

- IFRS 17, "Insurance Contracts" issued in May 2017, sets out the requirements that a Company should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. The standard is effective for annual periods beginning on or after January 1, 2023, with early adoption permitted.

- IFRS 9, "Financial Instruments" issued in July 2014, replaces IAS 39, "Financial Instruments: Recognition and Measurement", and will change the classification and measurement of financial assets and liabilities. Amendments in applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (Amendments to IFRS 4) issued in September 2016 provide two options for entities that issue insurance contracts within the scope of IFRS 4:
  - An option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets, the 'overlay approach';
  - An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4, the 'deferral approach'.

The Company has taken the temporary exemption and does not plan to adopt IFRS 9 and IFRS 17 early.

2.2. Summary of significant accounting policies

a. Product classification

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

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

b. Financial instruments

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

Financial assets

Initial recognition and measurement

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

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

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

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

Subsequent measurement

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

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

Derecognition of financial liabilities

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

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

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

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

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

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

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

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

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

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

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

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

e. Insurance receivables

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

f. Cash and cash equivalents

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

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

g. Taxes

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

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

h. Foreign currency translation

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

i. Insurance liabilities

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

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

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

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

j. Insurance payables

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

k. Provisions

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

l. Intangible assets

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

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

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

m. Equity movements

Ordinary share capital

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

Contributed surplus

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

Dividends on ordinary share capital

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

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

n. Revenue recognition

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

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

Adverse development cover (“ADC”), Excess of loss (“XoL”) and Loss portfolio transfers (“LPT”)
Premiums arising from ADC, XoL and LPT contracts covering expired risks are recognised as written and earned premiums in the consolidated statement of loss and other comprehensive loss on the effective date of the contract. Where insurance liabilities have been assumed as part of an ADC contract, the liabilities are recognised in the consolidated statement of financial position as part of Loss and loss expense provisions.

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

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

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

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

2.3 Significant accounting judgements, estimates and assumptions

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

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

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

(Expressed in United States Dollars)

3. Management of insurance and financial risks

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

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

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

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

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

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

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

The investment allocation at December 31, 2022 and 2021 is shown below:

	2022		2021	
	$	%	$	%
Corporate bonds	75,516,515	85%	227,312,806	88%
Government and government agencies	14,153,392	15%	31,320,797	12%
Equities	-	-	343,706	-
	89,669,907	100%	258,977,309	100%

Corporate bonds include asset backed securities/mortgage obligations totalling $10,773,613 (2021: $20,133,517).

(Expressed in United States Dollars)

(i) Pricing risk

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

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

2022	Level 1	Level 2	Level 3	Total
	$	$	$	$
Corporate bonds	72,748,456	2,768,059	-	75,516,515
Government and government agencies	14,153,392	-	-	14,153,392
Total financial assets measured at fair value	86,901,848	2,768,059	-	89,669,907

2021	Level 1	Level 2	Level 3	Total
	$	$	$	$
Corporate bonds	211,933,373	15,379,433	-	227,312,806
Government and government agencies	31,320,797	-	-	31,320,797
Equities	343,706	-	-	343,706
Total financial assets measured at fair value	243,597,876	15,379,433	-	258,977,309

Based on invested assets at external managers with a value of $96,134,921 (2021: $263,345,416) comprising financial assets and cash deposited with investment managers, as at December 31, 2022, a 1% increase/decrease in market values would result in an increase/decrease in the profit before income taxes of $896,699 (2021: $2,589,773).

There were no transfers between Level 1, 2 and 3 during the years ended December 31, 2022 and 2021.

(Expressed in United States Dollars)

(ii) Liquidity risk

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

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

2022	Total	Less than 12 months	1 – 2 years	2 – 3 years	3 – 5 years	5 years +
Maturity profile ($)	89,669,907	8,530,179	16,425,495	16,774,922	19,585,311	28,354,000
Interest rate range		0 - 7.38%	0.25 - 9.75%	0.25 - 7.63%	0.63 - 6.50%	1.0 – 7.39%
2021	**Total**	**Less than 12 months**	**1 – 2 years**	**2 – 3 years**	**3 – 5 years**	**5 years +**
Maturity profile ($)	258,633,603	7,975,917	19,350,993	21,992,433	66,642,893	142,671,367
Interest rate range		0 -10.0%	0.13-7.38%	0.25-9.75%	0.25-7.63%	0.65-8.50%

The Company's investments in equities had no stated maturity dates.

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

(iii) Interest rate risk

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

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

(Expressed in United States Dollars)

The Company has interest bearing assets and liabilities previously linked to the London Interbank Offered Rate ("Libor"). The effect of increases in risk-free rates on the net assets of the Company is disclosed below:

	Gross value of assets/liabilities linked to risk-free rates	Effect of 1% increase in risk-free rates
2022	$	$
Interest earning assets	46,747,877	467,479
Interest paying liabilities	(19,942,857)	(199,429)
2021		
Interest earning assets	51,504,204	515,042
Interest paying liabilities	(19,885,714)	(198,857)

Interest earning assets are priced with reference to risk-free interest rates issued by the European Insurance and Occupational Pensions Authority ("EIOPA"); interest paying liabilities will be priced based on Secured Overnight Financing Rate ("SOFR") data published by the US Federal Reserve. The change will not have a material impact on the Company's results.

b. Credit risk

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

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

	2022 $	Reduction for 1% bad debt $	2021 $	Reduction for 1% bad debt $
Receivable balances from/held at:				
Funds withheld	86,273,915	862,739	56,151,950	561,519
Reinsurers' share of loss and loss expense provisions	10,497,969	104,980	4,610,336	46,103
Insurance balances receivable	559,998	5,600	1,227,471	12,275
Intercompany loans and receivables	50,595,829	505,958	52,396,754	523,968
Other receivables	257,785	2,578	226,128	2,261
Prepayments and accrued income	1,194,748	11,947	2,295,119	22,951
	149,380,244		116,907,758	

Balances receivable from Group companies are deemed to be collectible as the Group has repaid amounts, upon the Company's demand, when required. Intercompany balances, other than the loan (see Note 13) arise from reinsurance agreements with Group companies.

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

c. Currency risk

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

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

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

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

December 31, 2022 (Expressed in USD)	US Dollar	British Pound	Swiss Franc	Other	Total
Intangible asset	582,555	-	-	-	582,555
Financial assets	68,307,145	21,362,762	-	-	89,669,907
Funds withheld	49,489,870	36,188,739	-	595,306	86,273,915
Reinsurers' share of loss and loss expense provisions	10,497,969	-	-	-	10,497,969
Insurance balances receivables	54,701	505,297	-	-	559,998
Intercompany loans and receivables	49,094,816	1,501,013	-	-	50,595,829
Other receivables	130,395	127,390	-	-	257,785
Prepayments and accrued income	962,035	232,713	-	-	1,194,748
Cash and cash equivalents	10,205,357	140,967	-	352,912	10,699,236
Loss and loss expense provisions	(127,215,432)	(33,646,623)	(4,868,392)	(248,978)	(165,979,425)
Insurance and reinsurance payables	(7,046,890)	387,251	(343,835)	-	(7,003,474)
Other payables and accruals	(4,448,330)	-	-	-	(4,448,330)
Borrowings	(19,942,857)	-	-	-	(19,942,857)
Net assets	30,671,334	26,799,509	(5,212,227)	699,240	52,957,856

December 31, 2021 (Expressed in USD)	US Dollar	British Pound	Swiss Franc	Other	Total
Intangible asset	717,810	-	-	-	717,810
Financial assets	102,292,060	156,685,249	-	-	258,977,309
Funds withheld	54,341,708	1,810,242	-	-	56,151,950
Reinsurers' share of loss and loss expense provisions	4,610,336	-	-	-	4,610,336
Insurance balances receivables	318,170	909,301	-	-	1,227,471
Intercompany loans and receivables	52,396,754	-	-	-	52,396,754
Other receivables	177,174	48,954	-	-	226,128
Prepayments and accrued income	835,861	1,459,258	-	-	2,295,119
Cash and cash equivalents	8,989,091	603,472	-	374,969	9,967,532
Loss and loss expense provisions	(152,710,469)	(87,285,326)	(5,971,002)	(271,212)	(246,238,009)
Insurance and reinsurance payables	(10,314,481)	(51,674)	(291,924)	-	(10,658,079)
Other payables and accruals	(14,546,401)	-	-	-	(14,546,401)
Borrowings	(19,885,714)	-	-	-	(19,885,714)
Net assets	27,221,899	74,179,476	(6,262,926)	103,757	95,242,206

(Expressed in United States Dollars)

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

Value of GBP denominated net assets at GBP 1: 1.2299 USD	Value of GBP denominated net assets at GBP 1: 1.2176	Decrease in Company's net assets
$26,799,509	$26,531,514	$267,995

Value of CHF denominated net liabilities at CHF 1: 1.0783 USD	Value of CHF denominated net liabilities at CHF 1: 1.0675 USD	Increase in Company's net assets
$(5,212,227)	$(5,160,105)	$52,122

d. *Capital management*

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

e. *Insurance risk*

(i) Underwriting risk

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

(ii) Reserving risk

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

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

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

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

4. Reinsurance

The Company benefits from reinsurance protection in three ways:

- Inuring reinsurance protection related to specific legacy transactions which was acquired through previous legal entity acquisitions completed by the Company. The Company is exposed to the credit risk of the reinsurer but mitigates this risk by withholding amounts from the reinsurer which exceed the amounts due from that same counterparty. During the year ended December 31, 2021, the Company commuted one of its two legacy reinsurance protections whereby the Company agreed to pay $25,000 to settle all amounts due to and from that reinsurer.

- Excess of loss reinsurance protection ("XoL reinsurance"), which relates to a portfolio of legacy transactions, which attaches when losses incurred on a portfolio of legacy transactions reaches $50 million (2021: $50 million), providing cover for the next $15 million (2021: $35 million) above that attachment point. The reinsurers on this XoL reinsurance have posted collateral to cover 100% of the $15 million (2021: $35 million) limit offered.

- Until the termination of its reinsurance of R&Q's Lloyd's corporate members on September 30, 2021 (see note 22), the Company benefitted from inuring reinsurance protection purchased by the syndicates. The Company's exposure was net of this reinsurance.

As at December 31, 2022 the Company has amounts due from reinsurers of $10,497,969 (2021: $4,610,336) and is withholding amounts due to reinsurers and collateral totalling $766,985 (2021: $935,824).

(Expressed in United States Dollars)

5. Insurance liabilities

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

	2022 $	2021 $
Outstanding loss reserves ("OSLR")	86,250,322	99,047,237
Incurred but not reported ("IBNR") reserve	79,729,103	147,190,772
Total unpaid claims reserves	165,979,425	246,238,009
Unearned premium reserve	-	-
Insurance and reinsurance payables	7,003,474	10,658,079
Total	172,982,899	256,896,088

Movements in OSLR and IBNR for the years ended December 31, 2022 and 2021 are shown in the following table. As the Company is a legacy reinsurer, all but an immaterial amount of the incurred and paid losses are in relation to prior years.

	2022 $	2021 $
Opening balance at January 1	246,238,009	450,756,326
Add: New reinsurance transactions during the year	50,109,924	1,480,611
Less: Commuted during the year	(75,737,316)	(138,732,422)
Losses incurred during the year	10,478,483	1,614,236
Losses paid during the year	(57,998,191)	(66,900,159)
Foreign exchange movement	(7,111,484)	(1,980,583)
Closing balance at December 31	165,979,425	246,238,009

Restricted assets held as collateral securing insurance liabilities were in the form of restricted cash and trust accounts for the benefit of the Company's ceding insurers, escrow accounts and funds withheld by the Company's ceding insurers. The composition of these restricted assets as at December 31, 2022 and 2021 was as follows:

	2022 $	2021 $
Financial assets	82,077,120	250,803,052
Funds withheld	86,273,915	56,151,950
Cash and cash equivalents	3,309,741	7,251,723
	171,660,776	314,206,725

(Expressed in United States Dollars)

Assumptions, changes in assumptions and sensitivity

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

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

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

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

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

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

A 1 percent reduction in insurance liabilities would increase net assets by $1,721,767 (2021: $2,559,209), assuming no changes in other variable factors.

6. Operating expenses

	2022 $	2021 $
Internal cost recharges	8,363,619	6,021,872
Investment expenses, including LOC fees	1,403,090	1,548,163
Legal and professional fees	554,140	617,235
Management fees	241,250	108,539
Amortisation	192,398	404,333
Actuarial fees	165,000	241,449
Audit fees	161,239	164,519
Company and license fees	66,366	83,542
Other	33,620	14,935
	11,180,722	9,204,587

(Expressed in United States Dollars)

7. Employees

The Company had no employees (2021: none) during the year, but employees of the Group fulfil roles for R&Q Re. The Company receives an allocation of costs from other Group companies to reflect the time spent on the Company's business, which are reflected in operating expenses within the consolidated statement of loss and other comprehensive loss.

8. Directors' emoluments

All executive directors serve without additional directors' fees. Included within the internal cost recharges from group service companies, there is a recharge of personnel costs related to the executive directors (see note 7). Non-executive directors receive an annual fee for their service on the Board and committees of the Company. During 2022, the total fees paid to the non-executive directors totaled $75,000 (2021: $50,000).

9. Investment income and realised losses on financial assets

Investment income	2022 $	2021 $
Financial assets		
Interest earned	6,184,393	6,885,673
Dividend income	52,242	112,969
Unrealised losses	(3,599,032)	(6,058,258)
	2,637,603	940,384
Loans and receivables		
Interest earned on loans	1,102,592	712,947
Income earned on funds withheld	278,363	407,096
	1,380,955	1,120,043
Total investment income	4,018,558	2,060,427

Realised losses on financial assets	2022 $	2021 $
Realised losses	29,260,368	1,683,376

(Expressed in United States Dollars)

10. Funds withheld, Insurance balances receivable and Intercompany loans and receivables

Funds withheld	2022 $	2021 $
Due within one year		
Funds withheld	17,623,911	3,027,440
Amounts held in escrow	2,047,328	-
	19,671,239	3,027,440
Due in more than one year		
Funds withheld	65,319,456	50,384,695
Amounts held in escrow	1,283,220	2,739,815
	66,602,676	53,124,510
Funds withheld	86,273,915	56,151,950

Insurance balances receivable	2022 $	2021 $
Due within one year		
Premium receivables	54,701	318,170
Due in more than one year		
Premium receivables	505,297	909,301
Insurance balances receivable	559,998	1,227,471

Intercompany loans and receivables	2022 $	2021 $
Due within one year		
Loans to group companies	47,034,124	52,393,408
Other intercompany balances	3,561,705	3,346
Total	50,595,829	52,396,754

Other receivables, prepayments and accrued income

All amounts within other receivables, prepayments and accrued income are due within one year.

(Expressed in United States Dollars)

11. Other payables and accruals

	2022 $	2021 $
Due within one year		
Accrued expenses	1,334,196	3,290,818
Other payables	3,114,134	3,410,473
	4,448,330	6,701,291
Due after one year		
Other payables	-	7,845,110
	4,448,330	14,546,401

All insurance and reinsurance payables are considered due within one year, given the nature of the Company's reinsurance contracts.

12. Regulatory capital requirements

The statutory net loss for the Company for the years ended December 31, 2022 and 2021 was $56,518,000 and $25,142,000, respectively. Under the Insurance Act 1978, amendments thereto and related Regulations (the "Insurance Act"), the Company is required to prepare consolidated statutory financial statements and to file with the Bermuda Monetary Authority ("BMA") a statutory financial return. The Insurance Act also requires the Company to maintain certain minimum measures of solvency and liquidity. At December 31, 2022, the statutory capital and surplus of the Company was $72,239,000 (2021: $114,399,000) and both the Minimum Margin of Solvency and Liquidity Ratio were met as at December 31, 2022 and 2021.

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

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

(Expressed in United States Dollars)

13. Related parties

The Company is a wholly owned of subsidiary of R&Q Insurance Holdings Ltd., a company incorporated in Bermuda. Included within the consolidated financial statements are the following balances arising out of contracts with other Group Companies:

	2022 $	2021 $
Balance sheet		
Funds withheld	77,698,299	42,505,950
Reinsurers' share of loss and loss expense provisions	10,000,000	4,000,000
Insurance balances receivable	505,297	1,172,770
Intercompany loans and receivables	50,595,829	52,396,754
Prepayments and accrued income	66,380	-
Loss and loss expense provisions	(101,946,184)	(54,179,324)
Insurance and reinsurance payables	(3,255,277)	(768,358)
Other payables and accruals	(2,997,116)	(11,255,583)
Income statement		
Insurance premium written	54,826,015	2,033,851
Investment income	1,102,592	712,947
Insurance claim and loss adjustment expenses	(45,469,189)	(6,573,130)
Operating expenses	(8,179,269)	(5,922,266)

On February 28, 2021, all existing intercompany loans in which the Company acted as the lender were consolidated into one loan with the Group. The loan is repayable on demand and earned interest at an annual rate based on EIOPA's published risk-free rates plus 1%. At the consolidated statement of financial position date, the principal outstanding was $46,747,877 (2021: $51,504,204) and accrued interest was $286,248 (2021: $889,204).

Intercompany balances payable totaled $2,953,633 at December 31, 2022 (2021 - $511,150) which are interest free, unsecured and repayable on demand.

(Expressed in United States Dollars)

14. Borrowings

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

The cash received from the issue of the notes was net of directly attributable costs of $400,000. As such, the fair value of the notes recognised in the consolidated statement of financial position was initially $19,600,000. At the year end, the fair value of the notes is $19,942,857 (2021: $19,885,714).

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

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

At the year end, there was interest payable of $57,452 (2021 - payable of $7,045) which has been recorded in Other payables and accruals in the consolidated statement of financial position. Interest accrues daily and is payable semi-annually in June and December.

15. Share capital

	Number of shares	Share capital $	Additional paid-in capital $	Total $
At January 1, 2021 and December 31, 2021	70,000	138,900	63,503,459	63,642,359
Increase in contributed surplus on novation	-	-	14,233,868	14,233,868
At December 31, 2022	70,000	138,900	77,737,327	77,876,227

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

Contributed surplus represents additional capital contributed by the owner of the Company to enable it to carry out its insurance business activities. Dividends declared and paid were $nil (2021: $nil).

On May 1, 2022, the Company signed two separate novation agreements to assume all the assets and liabilities of two segregated accounts which previously it had reinsured. As a result, the assets and liabilities of the two segregated cells were transferred to the Company during the year ended December 31, 2022. There was no impact on the results of the Company, due to the results of the segregated cells being 100% reinsured by the Company before the novation agreements were signed. As a result of these novations, the contributed surplus of the Company increased by $14,233,868, which was the contributed surplus in the two segregated accounts at the time of novation.

(Expressed in United States Dollars)

16. Intangible asset

	2022 $	2021 $
Opening balance	717,810	1,065,000
Amortisation	(135,255)	(347,190)
Closing balance	582,555	717,810

As part of the acquisition of Mondi in the year to December 31, 2020, the Company recognised an intangible asset for the difference between the fair value of the insurance liabilities acquired and the IFRS basis of the insurance liability under the Company's accounting policies. The intangible asset is being amortised over the expected pay out pattern, which is estimated at thirteen years.

There were no intangible assets recognised upon the acquisition of Oleum by Distinguished Re on September 28, 2021.

17. Cash and cash equivalents

	2022 $	2021 $
Cash and cash equivalents	10,699,236	9,967,532

Included in cash and cash equivalents is $76,390 (2021: $364,041) of Funds at Lloyd's, which are restricted to its use to support group syndicate underwriting activities. The carrying amounts disclosed above reasonably approximate their fair values at the year-end date. Refer to Note 5 for disclosure of restricted cash balances.

Cash and cash equivalents of $10,699,236 (2021: $9,967,532) are on deposit with seven (2021: eight) financial institutions with credit ratings of A- or higher.

(Expressed in United States Dollars)

18. Letters of credit

The Company utilises letters of credit for which third parties are the beneficiaries, to secure the Company's obligations under certain reinsurance contracts. As at December 31, 2022, letters of credit in the amount of $71,420,710 and CAD $340,000 (2021: $60,165,000 and CAD $340,000) were issued to the benefit of third parties.

19. Business combination

Acquisitions of run-off insurance and reinsurance companies is one of the ways in which the Company obtains legacy insurance liabilities, which is its primary purpose.

On September 28, 2021, the Company acquired the entire share capital of Oleum Insurance Company Limited ("Oleum"), a Barbados-domiciled, Class 2 reinsurer for net consideration of $883,436. As a result of this transaction, the Company recorded a gain on bargain purchase of $349,381 in Other income in the consolidated statement of loss and other comprehensive loss.

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

	2021 $	2021 $
Total purchase price		883,436
Assets acquired		
Cash and cash equivalents	1,229,682	
Other assets	3,135	
		1,232,817
Net assets acquired		1,232,817
Gain on bargain purchase		349,381

There was no material income or expense recognised in the period from the date of acquisition to December 31, 2021 for the acquisition. For the purposes of calculating the acquisition date statement of financial position, the September 30, 2021 statement of financial position was utilised for Oleum. Oleum was merged into Distinguished Re effective December 29, 2021.

(Expressed in United States Dollars)

20. Finance costs

	2022	2021
	$	$
Subordinated debt interest	1,885,200	1,627,252

21. Commutation of third-party business

Effective December 2, 2022, the Company commuted two books of third-party business with two companies within the Group. The Company recognized a loss on commutation of $9,444,243; this loss is calculated as the difference between the amounts payable to the companies assuming the reinsurance liabilities, and the carrying value of those liabilities at the effective date, as follows:

	$
Fair value of consideration payable	85,181,559
Loss and loss expense provisions	(75,737,316)
Loss on commutation	9,444,243

The consideration payable was substantially settled by December 31, 2022 with the transfer of the following assets to the assuming companies:

	$
Fixed income investments at market value, including accrued interest	83,028,501
Cash	265,807
	83,294,308

22. Termination of Lloyd's corporate member reinsurance

On September 30, 2021, the Company entered into an agreement to terminate its reinsurance of R&Q's Lloyd's corporate members. In terminating the agreement, the Company reversed the year-to-date activity relating to the open underwriting years and surrendered any right to profits which had accumulated to the Company's benefit. The net effect of the termination was to recognise a loss on termination of $13,086,832.

The loss on termination is calculated as the difference between the carried corporate member reinsurance balances within the consolidated financial statement line items as set out below at December 31, 2020:

	$
Insurance balances receivable	151,361,275
Loss and loss expense provision	(138,274,443)
Loss on termination	13,086,832

23. Subsequent events

The Company evaluated subsequent events through June 20, 2023, which was the date the consolidated financial statements were authorised for issuance by the Board.

Change in accounting framework

Effective January 1, 2023, the Company voluntarily changed its basis of accounting from IFRS to the Generally Accepted Accounting Principles in the United States of America (“US GAAP”) and will present its consolidated financial statements in US GAAP from that date. The reason for this change is due to the meaningful ongoing costs to conform with IFRS 17, which would place the Company and the Group at a significant competitive disadvantage in the Legacy Insurance market, where most of the market participants report under US GAAP.

Intercompany loan with ultimate parent

On February 28, 2023, the intercompany loan with the Group (notes 10 and 13) was renewed until April 28, 2024.

Quota Share Reinsurance Agreement

On March 21, 2023, following regulatory approval from the BMA received on January 27, 2023, and approval from its Board of Directors that was required as the quota share reinsurance agreement (the “Agreement) represents a deviation from the Company’s core business of assuming legacy insurance liabilities, the Company entered into the Agreement, to reinsure 80% of a portfolio of active UK motor business produced by a UK based managing general agency from a related party, Accredited Insurance (Europe) Limited – UK Branch ("AIEL"). The Agreement applies to insurance policies that incepted during the second half of 2022. The Company’s estimates of the initial financial impact as of December 31, 2022 were as follows: net income of $0.14 million, gross premiums written of $24.3 million, commission expense of $3.5 million, OSLR of $3.5 million, and an intercompany receivable from AIEL of $20.4 million (unaudited).

Strategic review by the Group

On April 4, 2023, it was announced that the Group was undertaking a review of strategic options to separate its Program Management and Legacy businesses, including a legal reorganisation of the Group structure followed by strategic transactions with third parties. Given the uncertainty of the timing and impact of this reorganisation, it is not possible to quantify the impact on the consolidated financial statements of the Company.