

**Humboldt Re Limited**

Annual report and audited consolidated financial statements (redacted)  
For the year ended 31 December 2021

Humboldt Re Limited

## Contents

Company information	3
Directors' report	4
Independent auditor's report	7
Consolidated statement of financial position	8
Consolidated statement of comprehensive income	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12

Humboldt Re Limited

## **Company information**

### **Directors**

Christopher Anderson  
Mark Elliott  
Hans-Joachim Guenther  
Simon Minshall (appointed 19 October 2021)  
Zsolt Szalkai (appointed 19 October 2021)

### **General representative**

Mark Elliott  
P.O. Box 33  
Dorey Court  
Admiral Park  
St. Peter Port  
Guernsey  
GY1 4AT

### **Company secretary**

Aon Insurance Managers (Guernsey) Limited  
P.O. Box 33  
Dorey Court  
Admiral Park  
St. Peter Port  
Guernsey  
GY1 4AT

### **Independent auditor**

KPMG Channel Islands Limited  
Gategny Court  
Gategny Esplanade  
St. Peter Port  
Guernsey  
GY1 1WR

### **Registered office**

P.O. Box 33  
Dorey Court  
Admiral Park  
St. Peter Port  
Guernsey  
GY1 4AT

### **Registered number**

60597

Humboldt Re Limited

## **Directors' report**

For the year ended 31 December 2021

The directors present their annual report and the audited consolidated financial statements (redacted) of Humboldt Re Limited (the "Company") and its subsidiary (together, the "Group") for the year ended 31 December 2021.

## **Incorporation**

The Company was incorporated in Guernsey on 2 July 2015. The Company operates in accordance with the provisions of the Companies (Guernsey) Law, 2008 and the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended.

## **Principal activity**

The Company's principal activity is the provision of property and natural catastrophe reinsurance business. The Company's principal focus is short-tail, geographically diversified property and specialty lines. The Company writes a combination of proportional and non-proportional reinsurance contracts.

The Company was licenced under Section 7 of the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended to carry on general insurance business, excluding domestic business, on 15 October 2015. The Company's A.M. Best Financial Strength Rating of A- (excellent) was affirmed and withdrawn on 15 October 2021 with the agreement of the Company.

## **Run-off and change in ownership**

On 8 December 2020, the former ultimate shareholder and the Board of Directors of the Company decided to cease underwriting new business as of 1 January 2021, whilst reviewing strategic options for the ultimate shareholder to unwind its investment.

On 19 October 2021, the entire share capital of the Company was acquired by Marco Capital Holdings Limited.

## **Corporate governance framework**

The Board discharges its responsibilities through meetings held regularly commensurate with the size of the Company's operations. The Board also oversees the activities of management and its committee, which comprises:

- Claims and Reserving Committee

The Claims and Reserving Committee operates within defined terms of reference which outline its role and responsibilities. The committee is chaired by a director and meet at least three times per year.

## **Results**

The results for the year are set out in the consolidated statement of comprehensive income on page 9.

## **Dividends**

Redacted.

## **Directors**

The directors of the Company who served during the year and to the date of this report are set out on page 3.

## **Company secretary**

Aon Insurance Managers (Guernsey) Limited has served as company secretary during the year and to the date of this report.

## **Going concern**

In the current year, the financial statements have been prepared on a going concern basis. The Directors believe that this is an appropriate basis on which prepare the financial statements as once

Humboldt Re Limited

### ***Directors' report continued***

the run-off of the existing portfolio of business has been completed, the Directors intend to undertake further reinsurance transactions involving portfolios in run-off.

The Company has net assets significantly in excess of its regulatory solvency requirement and is not dependent on any external finance. After making enquiries, the Directors have a reasonable expectation that the Company has adequate financial resources to meet its obligations and continue in operational existence.

Redacted.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the directors' report and the consolidated financial statements in accordance with applicable law and regulations. The Companies (Guernsey) Law, 2008 requires the directors to prepare financial statements for each financial year which give a true and fair view, are in accordance with generally accepted accounting principles and which comply with any relevant enactment for the time being in force. Under that law, the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these consolidated financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.

The directors confirm that they have complied with the above requirements in preparing the consolidated financial statements.

The directors are responsible for keeping proper accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the financial statements are prepared properly and in accordance with the Companies (Guernsey) Law, 2008, and the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended and the Insurance Business Rules and Guidance, 2021. They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Disclosure of information to auditor**

In accordance with Section 249 of the Companies (Guernsey) Law, 2008, the directors who held office at the date of approval of this directors' report confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

Humboldt Re Limited

**Directors' report continued**

- each director has taken all the steps he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Independent auditor**

The independent auditor previously appointed by the Company, KPMG Channel Islands Limited, have indicated their willingness to continue in office.

Approved by the Board and signed on its behalf on 23 March 2022 by

DocuSigned by:  
  
5B97538E9081491...  
**Director**  
11-Apr-2022

**Registered office:**

P.O. Box 33  
Dorey Court  
Admiral Park  
St. Peter Port  
Guernsey  
GY1 4AT

Humboldt Re Limited

## **INDEPENDENT AUDITOR'S REPORT ON THE ABRIDGED CONSOLIDATED FINANCIAL STATEMENTS OF HUMBOLDT RE LIMITED**

### **Opinion**

The abridged consolidated financial statements (the "abridged financial statements"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Humboldt Re Limited for the year ended 31 December 2021.

In our opinion, the accompanying abridged financial statements are a fair summary of the audited consolidated financial statements, in accordance with the provisions of The Insurance Business Rules and Guidance, 2021, in a manner authorised by the Guernsey Financial Services Commission.

### **Abridged Financial Statements**

The abridged financial statements do not contain all the disclosures required by International Financial Reporting Standards as adopted by the European Union. Reading the abridged financial statements and our report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and our report thereon.

The abridged financial statements and the audited consolidated financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated financial statements.

### **The audited financial statements and our report thereon**

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 22 March 2022.

### **Directors' responsibility for the summary financial statements**

The directors are responsible for the preparation of the abridged financial statements on the basis described in Note 3.

### **Auditor's responsibility**

Our responsibility is to express an opinion on whether the abridged financial statements are a fair summary of the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

*KPMG Channel Islands Limited.*

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**KPMG Channel Islands Limited**  
Guernsey

Date: 12 April 2022

Humboldt Re Limited

**Consolidated statement of financial position**

As at 31 December 2021

	Note	2021 USD	2020 USD
<b>Assets</b>			
Cash and cash equivalents	10	•	•
Financial assets held for trading	10	•	•
Insurance receivables	11	•	•
Investment in associate		•	•
Claims recoverable from reinsurers	16	•	•
Other receivables and prepayments	12	•	•
Deferred insurance and reinsurance assets	13	•	•
Collateral assets	14	•	•
<b>Total assets</b>		<b><u>668,614,854</u></b>	<b><u>961,879,724</u></b>
<b>Equity and reserves</b>			
Share capital	15	•	•
Retained earnings		•	•
<b>Total equity and reserves</b>		<b><u>257,610,999</u></b>	<b><u>386,725,747</u></b>
<b>Liabilities</b>			
Claims liabilities	16	•	•
Insurance and reinsurance payables	17	•	•
Other payables and accruals		•	•
Deferred insurance and reinsurance liabilities	18	•	•
<b>Total liabilities</b>		<b><u>411,003,855</u></b>	<b><u>575,153,977</u></b>
<b>Total equity, reserves and liabilities</b>		<b><u>668,614,854</u></b>	<b><u>961,879,724</u></b>

Approved by the Board and signed on its behalf on 23 March 2022 by

DocuSigned by:  
  
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**Director**

11-Apr-2022

The accompanying notes on pages 12 to 36 form an integral part of these consolidated financial statements.

Humboldt Re Limited

**Consolidated statement of comprehensive income**

For the year ended 31 December 2021

	Note	2021 USD	2020 USD
<b>Insurance premium revenue</b>			
Gross written premium		•	•
Outwards reinsurance premium		•	•
<b>Net written premium</b>		•	•
Movement in unearned premium		•	•
Movement in unexpensed outwards reinsurance premium		•	•
<b>Net earned premium</b>		•	•
Acquisition costs		•	•
Net other insurance income and expenses		•	•
<b>Net insurance premium revenue</b>		•	•
<b>Insurance claims expenses</b>			
Insurance claims expenses		•	•
Insurance claims expenses recoverable from reinsurers		•	•
<b>Net insurance claims expenses</b>		•	•
		•	•
<b>(Loss)/profit attributable to underwriting activities</b>		•	•
<b>Investment income</b>			
Net (losses)/gains from financial instruments at fair value through profit or loss	10	•	•
Bond interest income received		•	•
Net other investment expenses	19	•	•
<b>Net investment (expenses)/income</b>		•	•
<b>Other operating expenses</b>			
Administration expenses	20	•	•
Foreign exchange gains/(losses)		•	•
<b>Net operating expenses</b>		•	•
<b>(Loss)/profit before tax</b>		•	•
Tax		•	•
<b>(Loss) or gain for the year, representing total comprehensive income</b>		•	•

The accompanying notes on pages 12 to 36 form an integral part of these consolidated financial statements.

Humboldt Re Limited

**Consolidated statement of changes in equity**

For the year ended 31 December 2021

	<b>Share capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>
<b>Balance at 31 December 2019</b>	<u>•</u>	<u>•</u>	<u><b>377,950,003</b></u>
Total comprehensive income for the year	•	•	•
<b>Balance at 31 December 2020</b>	<u>•</u>	<u>•</u>	<u><b>386,725,747</b></u>
Total comprehensive income for the year	•	•	•
Dividends paid	•	•	•
<b>Balance at 31 December 2021</b>	<u>•</u>	<u>•</u>	<u><b>257,610,999</b></u>

The accompanying notes on pages 12 to 36 form an integral part of these consolidated financial statements.

Humboldt Re Limited

**Consolidated statement of cash flows**

For the year ended 31 December 2021

	2021 USD	2020 USD
<b>Cash flows from operating activities</b>		
(Loss)/profit for the year	•	•
<b>Adjustments:</b>		
Net losses/(gains) from financial instruments at fair value through profit or loss	•	•
Bond interest income received	•	•
Net other investment income and expenses	•	•
Effects of changes in FX rates on cash and cash equivalents	•	•
<b>Movement in operating assets and liabilities:</b>	•	•
Decrease in insurance receivables	•	•
Decrease in claims recoverable from reinsurers	•	•
Decrease/(increase) in other receivables and prepayments	•	•
Decrease in deferred insurance and reinsurance assets	•	•
Decrease in collateral assets	•	•
Decrease in claims liabilities	•	•
Decrease in insurance and reinsurance payables	•	•
Increase/(decrease) in other payables and accruals	•	•
Decrease in deferred insurance and reinsurance liabilities	•	•
<b>Net cash (outflows)/inflows from operating activities</b>	•	•
Purchase of financial assets at fair value through profit or loss	•	•
Disposal of financial assets at fair value through profit or loss	•	•
Bond interest income received	•	•
Net other investment income and expenses	•	•
<b>Net cash inflows/(outflows) from investing activities</b>	•	•
Dividend paid	•	•
<b>Net cash outflows from financing activities</b>	•	•
<b>Net increase/(decrease) in cash and cash equivalents</b>	•	•
Effects of changes in FX rates on cash and cash equivalents	•	•
Cash and cash equivalents at beginning of the year	•	•
<b>Cash and cash equivalents at the end of the year</b>	•	•

The accompanying notes on pages 12 to 36 form an integral part of these consolidated financial statements.

Humboldt Re Limited

## Notes to the consolidated financial statements

### 1. Corporate information

Humboldt Re Limited (the "Company") is a limited company incorporated and domiciled in Guernsey. The registered office of the Company is P.O. Box 33, Dorey Court Admiral Park, St. Peter Port, Guernsey, GY1 4AT.

The Company's principal activity is the provision of property and natural catastrophe reinsurance business. The Company is licensed under Section 7 of the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended, to carry on general insurance business.

The immediate parent company is Marco Capital Holdings Limited ("MCHL"), a company incorporated in Malta on 27 May 2020. The registered office address is 171, Old Bakery Street, Valletta, Malta. The directors do not consider the Company to have an ultimate controlling party on the basis that its share capital is shared by various shareholders and none of these individually has direct or indirect control over the Company.

### 2. Group information

Redacted.

### 3. Basis of preparation

These abridged consolidated financial statements are derived from the audited consolidated financial statements of the Company for the year ended 31 December 2021 and are consistent, in all material respects, with (or are a fair summary of) the audited consolidated financial statements, in accordance with the provisions of The Insurance Business Rules and Guidance 2021. The consolidated financial statements from which these abridged financial statements are derived give a true and fair view and have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The consolidated financial statements have been prepared on going concern basis and are in compliance with the Companies (Guernsey) Law, 2008 and the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended. The consolidated financial statements for the year ended 31 December 2020 had been prepared on a non-going concern basis and the change to the going concern basis in the current year does not require any restatement of the comparative numbers.

The consolidated financial statements have been prepared under the historical cost convention except financial instruments at fair value through profit or loss, which are measured at their fair value.

The accounting policies adopted in preparing these consolidated financial statements are consistent with those followed in the preparation of the Company's consolidated financial statements for the year ended 31 December 2020 unless otherwise stated. The change in basis of preparation from non-going concern in the prior year to going concern in the current year has not resulted in any restatement of comparatives.

In the current year, the financial statements have been prepared on a going concern basis. The Directors believe that this is an appropriate basis on which prepare the financial statements as once the run-off of the existing portfolio of business has been completed, the Directors intend to undertake further reinsurance transactions involving portfolios in run-off.

The Company has net assets significantly in excess of its regulatory solvency requirement and is not dependent on any external finance. After making enquiries, the Directors have a reasonable expectation that the Company has adequate financial resources to meet its obligations and continue in operational existence.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires the directors to exercise their judgement in the application of the Company's accounting policies. Although estimates are based on management's best knowledge of current events and actions, actual results could ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated financial statements are described in note 6.

Humboldt Re Limited

## **Notes to the consolidated financial statements continued**

The consolidated financial statements were authorised for issue by the directors on 23 March 2022.

### **4. Adoption of new or revised standards**

#### **4.1 New and amended standards and interpretations effective on or after 1 January 2021**

The new and amended standards and interpretations effective on or after 1 January 2021 that were applicable to the Company are described below.

#### **(a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest rate benchmark Reform – Phase 2**

In August 2020, the IASB published 'Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' covering amendments which address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. These amendments have not had a material impact on adoption.

#### **(b) Amendments to IFRS 16 Leases**

In March 2021, the IASB issued *Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)*. The Amendment provides a practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the Covid-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications. The Amendment is effective for annual reporting periods beginning on or after 1 April 2021 with earlier application is permitted, including in financial statements not yet authorised for issue at 31 March 2021. These amendments have not had a material impact on adoption.

#### **4.2 New and amended standards and interpretations not yet effective**

The new and amended standards and interpretations in issue but not yet effective that are applicable to the Company and have not yet been adopted by the Company are described below.

#### **(a) IFRS 17 Insurance contracts**

In May 2017, the IASB issued IFRS 17, which is effective for annual periods beginning on or after 1 January 2023. Amendments to IFRS 17 were issued on 25 June 2020. The new insurance contracts standard covers the recognition, measurement, presentation and disclosure of insurance contracts and, once effective, will replace IFRS 4 that was issued in 2005.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is a general model, supplemented by a simplified approach (the premium allocation approach) for short duration contracts.

Management is currently assessing the impact of the new standard on the consolidated financial statements.

#### **(b) Amendments to IFRS 4 Insurance contracts – deferral of IFRS 9**

In June 2020, the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 was extended to 1 January 2023.

### **5. Significant accounting policies**

#### **5.1 Consolidation**

The consolidated financial statements consolidate the results of the Company and its subsidiary, the segregated account cell controlled by the Company. The subsidiary is an entity over which the Group has control. The Group is deemed to control an entity if it has exposure to variable returns from its involvement with the entity and has the ability to use its power to affect those returns from its involvement with the entity. The financial statements of the Company's subsidiary are prepared for the same reporting year as the Company. The subsidiary is consolidated from the date that Group obtains control and ceases to be consolidated from the date Group loses control. All inter-company balances, profits and transactions are eliminated.

Humboldt Re Limited

## **Notes to the consolidated financial statements continued**

### **5. Significant accounting policies continued**

#### **5.2 Functional and presentation currency**

The Company transacts business and recognises assets and liabilities in a number of different currencies and the determination of the Company's functional currency therefore requires critical accounting judgment.

#### **5.3 Foreign currency transactions**

Foreign currency transactions are translated into the functional currency using the rate of exchange prevailing at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the date at which the asset or liability first arose.

Any resulting exchange differences are recognised within foreign exchange gains or losses in the consolidated statement of comprehensive income.

#### **5.4 Insurance contracts – classification**

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause the Company to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Risk transfer contracts that do not meet the definition of insurance contracts are classified as financial instruments.

#### **5.5 Gross written and earned premium**

Written premiums are first recognised in the period in which the contract incepts or the period in which the contract is bound, if later.

The Company writes both proportional and non-proportional reinsurance contracts. For non-proportional contracts, gross written premium is recorded based on the deposit or flat premium (net of taxes) as defined in the contract. Subsequent adjustments to the premium are recognised in the period in which they are determined.

For proportional contracts, written premium is recognised based on estimates of ultimate premiums provided by the reinsured, adjusted by the Company where considered appropriate. Initial estimates of written premium are recognised in the period in which the contract incepts, or in the period in which the contract is bound, if later. Subsequent adjustments, based on reports of actual premium by the reinsured, or revisions in estimates, are recognised in the period in which they are determined.

The proportion of gross written premium attributable to periods after the reporting date is deferred as unearned premium. The change in this reserve is recognised in income in corresponding periods in order that premium is recognised over the period of risk coverage.

Premium is earned proportionally over the policy contract period, except where the period of risk differs significantly from the contract period. In these circumstances, premium is earned over the period of risk in proportion to the amount of reinsurance protection provided.

Where contract terms require the reinstatement of coverage after a reinsured's loss, the estimated reinstatement premiums are recorded as written premiums.

Humboldt Re Limited

## **Notes to the consolidated financial statements continued**

### **5. Significant accounting policies continued**

#### **5.6 Outwards reinsurance premium**

Outwards reinsurance premiums are recognised in the period in which the contract incepts or the period in which the contract is bound, if later.

The Company purchases both proportional and non-proportional reinsurance contracts. For non-proportional contracts, outwards reinsurance premium is recorded based on the deposit or flat premium as defined in the contract or, where greater, the Company's estimate of the adjusted premium under the contract. Subsequent adjustments to the premium are recognised in the period in which they are determined.

For proportional contracts, outwards reinsurance premium is recognised based on the proportion of the underlying contract being ceded. Initial estimates of written premium are recognised in the period in which the contract incepts, or in the period in which the contract is bound, if later. Subsequent adjustments, based on changes to the premium of the underlying reinsurance contract(s) written, are recognised in the period in which they are determined.

The proportion of outwards reinsurance premium attributable to periods after the reporting date is deferred as unearned outwards reinsurance premium. The change in this asset is recognised as an expense in future periods in order that premium is recognised over the period of risk protection.

Outwards reinsurance premium is earned proportionally over the policy contract period, except where the period of risk differs significantly from the contract period. In these circumstances, premium is amortised over the period of risk in proportion to the amount of reinsurance protection received.

Where contract terms require the reinstatement of coverage after a loss, the estimated outwards reinstatement premiums are recorded as outwards reinsurance premiums.

#### **5.7 Acquisition costs and deferred acquisition costs**

Acquisition costs represent commissions, brokerage and other variable costs that relate directly to the successful sale of new contracts and the renewal of existing contracts. Acquisition costs are deferred and amortised in the period(s) over which the related premiums are earned. Deferred acquisition costs are reviewed at the reporting date and impaired where they are no longer considered to be recoverable out of future margins from the related revenues.

#### **5.8 Outwards reinsurance expenses and deferred outwards reinsurance expenses**

Outwards reinsurance expenses represent commissions, brokerage and other variable costs that relate directly to the purchase of outwards reinsurance contracts. Outwards reinsurance expenses are deferred and amortised in the period(s) over which the related premiums are expensed.

#### **5.9 Other insurance income and expenses**

Commissions receivable on proportional outwards reinsurance contracts are deferred and earned using the same principles as for acquisition costs on inwards business.

Contingent profit commissions on outwards reinsurance contracts are accrued when it is highly probable that the income will be realised.

#### **5.10 Insurance claims expenses and claims liabilities**

Insurance claims expenses comprise claims and loss adjustment expenses incurred in the period based on the estimated compensation owed to reinsureds on the reinsurance contracts written by the Company, whether or not reported to the Company by the reporting date.

Claims paid are defined as those claims transactions settled up to the reporting date.

Claims liabilities represent the total estimated claims and loss adjustment expenses incurred on the reinsurance contracts written by the Company that have not been settled as at the reporting date and comprise the following:

Humboldt Re Limited

**Notes to the consolidated financial statements continued****5.10 Insurance claims expenses and claims liabilities continued**

- Claims payable represent liabilities to pay claims where claims on the underlying insurance contract(s) written by the reinsured have been settled in excess of the reinsurance contract's attachment point.
- Specific loss reserves are made for known or anticipated liabilities under reinsurance contracts written that have been notified to the Company.
- Incurred but not reported (IBNR) reserves are established to provide for claims expenses on insured events that have occurred but for which loss notifications have not been received by the Company prior and up to the reporting date. These liabilities are determined by the Company based on recognised actuarial methods and assumptions. These methods and assumptions are regularly reviewed through the use of catastrophe models, own loss experience, historical industry loss experience, underwriting and originator experience, estimates of pricing adequacy trends and the directors' and management's professional judgement.

Certain contracts written by the Company require the Company to fund cedants' estimates of their claims recoverable from the Company in full, regardless of whether the cedant has settled their own underlying claims liabilities, by way of cash call advances. The Company may also choose to provide such cash call advances on an ex-gratia basis. Where cash call advances made are in excess of claims paid or claims payable, they are recorded as cash call advances made to cedants as an offsetting item against claims liabilities in the statement of financial position.

Where the amount of cash call advances paid exceeds the Company's own estimated claims liabilities, the excess amounts paid are classified within insurance receivables as claims deposits made to cedants.

Changes in estimates of insurance claims liabilities are recognised in the consolidated statement of comprehensive income in the period in which the estimate changes.

**5.11 Insurance claims expenses recoverable from reinsurers and claims recoverable from reinsurers**

Insurance claims expenses recoverable from reinsurers comprise recoverable claims and loss adjustment expenses recoverable in the period based on the estimated compensation due from reinsurers on the outwards reinsurance contracts purchased by the Company, whether or not reported by the Company to the reinsurer by the reporting date.

Claims recoverable from reinsurers represent the total estimated recoverable claims and loss adjustment expenses recoverable on the outwards reinsurance contracts purchased by the Company that have not been settled as at the reporting date, and comprise the following:

- Reinsurance receivables represent amounts due to the Company where claims on the underlying reinsurance contract written by the Company have been settled or settlement has been requested, and payment has been or may be requested from the outwards reinsurer.
- Reinsurers' share of specific loss reserves represents known or anticipated recoveries under outwards reinsurance contracts purchased that correspond to specific loss reserves on inwards reinsurance contracts.
- Reinsurers' share of incurred but not reported reserves represents the estimate of claims recoverable from reinsurers corresponding to the IBNR reserves on inwards reinsurance contracts.

Where outwards reinsurance contracts permit, cash may be called from reinsurers in settlement of claims and claims expenses recoverable in advance of the settlement of claims and claims expense liabilities on the underlying inwards contracts. Where such cash call advances received from reinsurers are in excess of reinsurance receivables settled or due they are recorded as cash call advances received from reinsurers as an offsetting item against claims recoverable from reinsurers in the statement of financial position, in anticipation of future receivable amounts coming due.

Humboldt Re Limited

**Notes to the consolidated financial statements continued****5.11 Insurance claims expenses recoverable from reinsurers and claims recoverable from reinsurers continued**

Where the current estimated value of claims and claims expenses recoverable from reinsurers on a contract is less than the value of cash call advances received, any such excess is classified within insurance and reinsurance payables as cash call returns due to reinsurers until settled with the reinsurer.

Changes in estimates of claims recoverable from reinsurers are recognised in the consolidated statement of comprehensive income in the period in which the estimate changes.

**5.12 Insurance receivables**

Insurance receivables comprise amounts due from agents, brokers and insurance contract holders in respect of the premiums written by the Company, and are recognised commensurate with the recognition of premiums written.

**5.13 Insurance and reinsurance payables**

Insurance and reinsurance payables comprise amounts due to agents, brokers and reinsurance providers in respect of the outwards reinsurance purchased by the Company as well as reinsurance commissions due to agents, brokers and insurance contract holders. Such amounts are recognised commensurate with the recognition of premiums written and ceded.

**5.14 Financial assets****(a) Classification**

Management determines the appropriate classification of financial assets at initial recognition.

**i. Financial assets at fair value through profit or loss**

The Company classifies its investments in bonds and money market funds as held for trading as they are acquired principally for the purpose of sale or repurchase in the near term and on initial recognition are part of a portfolio of identifiable financial instruments that are managed together for the purpose of short-term profit taking.

The Company may also be party to other risk transfer contracts that do not meet the criteria within IFRS 4 for the transfer of significant insurance risk. Where this is the case, such contracts are accounted for as derivative financial instruments classified as held for trading.

The Company provides capital as security, known as Funds at Lloyd's, to support the Lloyd's underwriting business of the Arcus 1856 syndicate. These assets are classified as financial assets designated at fair value through profit or loss at inception because they are both managed and their performance evaluated on a fair value basis. The Company presents Funds at Lloyd's within collateral assets in the statement of financial position to most accurately reflect the nature of the assets recognised.

**ii. Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as 'trading' assets and have not been designated at fair value through profit or loss or as available-for-sale. The Company classifies cash and cash equivalents, other receivables and collateral assets (except Funds at Lloyd's) as loans and receivables. Cash and cash equivalents comprise cash at bank and in hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

**(b) Recognition, derecognition and measurement****i. Recognition and derecognition**

Regular way purchases and sales of financial assets are recognised on the settlement date, which is the date that the agreement to purchase or sell the asset is settled by delivery of the assets or liabilities that are the subject of the agreement.

Humboldt Re Limited

## **Notes to the consolidated financial statements continued**

### **5.14(b) Recognition, derecognition and measurement continued**

Derivative financial instruments are recognised on the date on which the Company becomes a party to the contract.

Financial assets are derecognised when the right to receive cash flows from the assets have expired or the Company has transferred substantially all the risks and rewards of ownership. Gains or losses arising on derecognition of financial assets are recognised as a component of investment income in profit or loss.

#### **ii. Initial measurement**

Financial assets are initially recognised at fair value. Transaction costs on financial assets at fair value through profit or loss are expensed as incurred in the statement of comprehensive income. The initial carrying amounts of instruments classified as loans and receivables are adjusted for transaction costs and included in the calculation of the effective interest method.

#### **iii. Subsequent measurement**

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented as net gains or losses from financial assets at fair value through profit or loss in the statement of comprehensive income.

Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from changes in amortised cost are presented as a component of interest income in the statement of comprehensive income. Loans and receivables are subject to annual reviews for impairment. If there is any objective evidence that the asset is impaired, the Company reduces the carrying amount accordingly and recognises the impairment loss in profit or loss.

#### **(c) Impairment of financial assets measured at amortised cost**

The Company assesses at the end of each reporting period as to whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are determined, if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

### **5.15 Financial liabilities**

#### **(a) Classification**

Management determines the appropriate classification of financial liabilities at initial recognition.

#### **i. Financial liabilities at fair value through profit or loss**

Derivative financial instruments classified as held for trading, as discussed in note 5.14(a)i. above, are classified as financial liabilities at fair value through profit or loss where the value such instruments represents a liability at the end of the reporting period.

#### **ii. Other financial liabilities**

Other payables and accruals are classified as other financial liabilities as they are neither held for trading nor designated at fair value through profit or loss.

#### **(b) Recognition, derecognition and measurement**

##### **i. Recognition and derecognition**

Derivative financial instruments are recognised on the date on which the Company becomes a party to the contract.

Other payables and accruals are recognised when the Company becomes a party to the contract.

Humboldt Re Limited

## **Notes to the consolidated financial statements continued**

### **5.15(b) Recognition, derecognition and measurement continued**

Financial liabilities are derecognised when the Company's contractual obligation is discharged, cancelled, or expires. Gains or losses arising on derecognition of financial assets are recognised as a component of investment income in profit or loss.

#### **ii. Initial measurement**

Financial liabilities are initially recognised at fair value. Transaction costs on financial liabilities at fair value through profit or loss are expensed as incurred in the statement of comprehensive income. The initial carrying amounts of instruments classified as other financial liabilities are adjusted for transaction costs and included in the calculation of the effective interest method.

#### **iii. Subsequent measurement**

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial liabilities at fair value through profit or loss are presented as net gains or losses from financial liabilities at fair value through profit or loss in the statement of comprehensive income.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from changes in amortised cost are presented as a component of interest expense in the statement of comprehensive income.

### **5.16 Fair value estimation**

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. Investments in bonds are generally quoted or dealt on a recognised stock exchange or other trading facility or in an active market. Fair valuations are made by the Company based on valuations received from the Company's investment manager. If such information is not provided, or is insufficiently timely, management uses appropriate valuation techniques to estimate the value of investments. In determining the fair value of such investments, management takes into consideration relevant factors which may include the impact of suspension, redemptions, liquidation proceedings and other significant factors. The estimates may differ from actual realisable values.

The Company's policy is to recognise transfers between levels of the fair value hierarchy at the end of the reporting period.

### **5.17 Taxation**

The Company is taxable in Guernsey at the standard company rate of zero percent (2020: zero percent) as per the Income Tax (Zero 10) (Guernsey) Law, 2007.

### **5.18 Share capital**

Issued ordinary shares are classified as equity instruments.

### **5.19 Net other investment income and expenses**

Net other investment income and expenses comprise investment management fees and other income and expenses associated with the management of the Company's investment portfolio and other investment-related assets.

### **5.20 Administration expenses**

Administration expenses are recognised on an accruals basis.

### **5.21 Deferral of IFRS 9 Financial instruments**

In accordance with amendments issued to IFRS 4 in September 2016, the Company has elected to defer the application of IFRS 9 *Financial instruments* which became effective on 1 January 2018. The Company expects to do so until application of the new insurance contracts standard, IFRS 17 *Insurance contracts*. During the deferral period, the Company will apply the existing financial

Humboldt Re Limited

**Notes to the consolidated financial statements continued****5.21 Deferral of IFRS 9 Financial instruments continued**

instruments standard, IAS 39 *Financial instruments: recognition and measurement* which IFRS 9 replaces.

The Company considers that its activities are predominantly connected with insurance and that it therefore qualifies for the optional temporary exemption from applying IFRS 9.

In order to assess that the Company's activities are predominantly connected with insurance, the Company is required to demonstrate that the percentage of the total carrying amount of its liabilities connected with insurance are, at a minimum, greater than 80 per cent of its total liabilities. This assessment is required to be made at the annual reporting date immediately preceding 1 April 2016, which is 31 December 2015 in the Company's case. At this date, the Company did not qualify for the exemption on the basis that it was recently incorporated and had not incurred any liabilities connected with insurance. However, a reassessment is permitted in circumstances where a change in an entity's activities is determined by management, is significant to the entity's operations and is demonstrable to external parties. The Company considers that the demonstrable underwriting activities undertaken since 1 January 2016 is evidence of a change in activities as anticipated by the standard and therefore that the Company qualifies for this temporary exemption.

Amendments to IFRS 4 require the Company to disclose the fair value at the end of the reporting period and the amount of change in fair value during the reporting period of all financial assets held by the company which meet the definition for held for trading under IFRS 9. This has been disclosed by the Company in Note 10(c).

**6. Significant accounting judgements and estimates**

The key assumptions concerning the future and key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**6.1 Gross written premium estimation – proportional contracts**

The calculation of estimated premium income on proportional contracts is inherently subjective as the amount of premium written is dependent on estimates of ultimate premiums provided by the reinsured, which are reviewed and adjusted by the Company's underwriters as necessary before being recognised. These estimates are reviewed on a quarterly basis by the Company and on receipt of bordereaux statements and adjusted where necessary.

**6.2 Valuation of claims incurred but not reported**

Liabilities for claims incurred but not reported require a significant amount of judgement as, by their nature, they are based on information that has not been reported to the Company. As such, these reserves are based on the best information available at a given time that may consequently change as a result of changes in assumptions or information. Such changes may result in either increases or decreases to the reserves recognised at the reporting date, as disclosed in note 16(b). Further disclosures in respect of the sensitivity to insurance risk are provided in note 7.5(b).

**6.3 Valuation of financial assets at fair value through profit or loss**

The valuation of financial assets at fair value through profit or loss is subject to estimation uncertainty depending on the nature of the investments. The fair value recognised may not represent actual realisable value for such investments. Further disclosures in respect of financial assets at fair value through profit or loss are provided in note 8.

**7. Risk management****7.1 Risk management framework**

The Company discharges its risk management responsibilities through the Board and its committee. The Board of Directors maintains the Company's Enterprise Risk Management policy and framework and is responsible for oversight of each of the Company's committees, maintaining the Company's risk register and monitoring emerging risks.

Humboldt Re Limited

**Notes to the consolidated financial statements continued****7.1 Risk management framework continued**

The Company's risk monitoring practices encompass both quantitative and qualitative views of risk across all major risk categories. This includes regular reporting on the Company's exposures to credit risk, liquidity risk, market risk and insurance risk, among others. A more detailed description of the major risk categories to which the Company is exposed is provided below.

**7.2 Credit risk**

Credit risk is the risk that one party to a financial arrangement will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is primarily exposed to credit risk through the financial instruments it holds and assets related to its insurance activities, including insurance receivables and claims recoverable from reinsurers. The Company seeks to proactively mitigate this risk by undertaking transactions with reputable counterparties with credit ratings in accordance with the Company's guidelines. Thereafter, the Company actively monitors the financial strength ratings of its counterparties (including financial investments counterparties and cedants) and assessing the recoverability of insurance receivables and claims recoverable from reinsurers.

The Company considers that the carrying amount of financial assets best represents the maximum exposure to credit risk.

**(a) Financial assets**

The investment guidelines agreed between the Company and the Company's investment manager allow investments in bonds with long-term credit ratings of AAA to BBB- (Standard & Poor's) or Aaa to Baa3 (Moody's) or AAA to BBB- (Fitch). In the event of a downgrade, the investment manager is required to inform the Company as soon as practicable. Downgraded securities below BBB- that have a credit rating of BB+, BB or BB- may be kept in the portfolio if the investment manager deems it to be in the Company's interest, although such bonds may not exceed 3% of the total portfolio market value. The maximum allocation permitted to bonds with a long-term credit rating of BBB is 30% of the total portfolio market value. An average minimum credit rating of A- (S&P) or equivalent is to be maintained.

An analysis of financial assets by credit rating is provided below:

<b>Financial assets credit rating analysis</b>	<b>Fair value through profit or loss USD</b>	<b>Loans and receivables USD</b>	<b>Total USD</b>
<b>As at 31 December 2021</b>			
AAA range	.	.	.
AA range	.	.	.
A range	.	.	.
BBB range	.	.	.
BB range	.	.	.
<b>Total financial assets</b>	<b>.</b>	<b>.</b>	<b>.</b>
<b>Financial assets credit rating analysis</b>	<b>Fair value through profit or loss USD</b>	<b>Loans and receivables USD</b>	<b>Total USD</b>
<b>As at 31 December 2020</b>			
AAA range	.	.	.
AA range	.	.	.
A range	.	.	.
BBB range	.	.	.
BB range	.	.	.
<b>Total financial assets</b>	<b>.</b>	<b>.</b>	<b>.</b>

**(b) Insurance receivables and claims recoverable from reinsurers**

The credit quality of insurance receivables and claims recoverable from reinsurers is assessed through at least quarterly reviews of cedant and reinsurer credit ratings. These cedant and reinsurer

Humboldt Re Limited

**Notes to the consolidated financial statements continued****7.2(b) Insurance receivables and claims recoverable from reinsurers continued**

credit ratings range from A++ to Not Rated (A.M. Best) and from AA- to Not Rated (Standard & Poor's). Where the credit rating of outwards reinsurers does not meet the minimum criteria prescribed by the Company's underwriting guidelines, the protection is collateralised by a combination of cash advances, letters of credit and reinsurance trusts which, in turn, have minimum credit rating requirements.

An analysis of insurance receivables that are past due but not impaired is provided below. None of these receivables have a recent history of default and the Company considers the amounts recoverable in full. No other financial assets are past due but not impaired. There are also no receivables that are past due and impaired.

<b>Aged insurance receivables analysis</b>	<b>2021</b>	<b>2020</b>
<b>As at 31 December</b>	<b>USD</b>	<b>USD</b>
0 to 30 days	-	424,353
31 to 60 days	-	42,104
61 to 90 days	-	328,019
More than 90 days	25,872	471,624
<b>Total aged insurance receivables</b>	<b>25,872</b>	<b>1,266,100</b>

**7.3 Liquidity risk**

Liquidity risk is the risk that the Company will be unable to meet its obligations as they fall due. The most significant liquidity risk of the Company is the availability of cash resources in respect of actual or potential claims arising from a major insured event, including the risk associated with a reinsurer failing to meet its obligations to settle claims or cash call advances on the Company's outwards reinsurance contracts.

In respect of claims liabilities, the Company manages its liquidity risk by ensuring that there is sufficient cash in the operating and expense accounts that are readily available to fulfil claims payments as they fall due. For potential future claims liabilities, the Company manages its liquidity risk by holding a minimum amount of sufficiently liquid financial instruments to cover potential losses arising from a defined major catastrophe scenario. Reference may also be made to the gross occurrence exceedance probability ("OEP") curves in note 7.5(c) below in respect of major peril regions to which the Company is exposed.

A maturity analysis of financial and insurance liabilities that shows the remaining contractual maturities is provided below. Claims liabilities other than claims payable have not been included in the analysis as they have no stated contractual maturity.

<b>Maturity analysis of financial and insurance liabilities</b>	<b>One to three months</b>	<b>Three to 12 months</b>	<b>Total</b>
<b>As at 31 December 2021</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Claims payable	•	•	•
Other payables and accruals	•	•	•
Insurance and reinsurance payables	•	•	•
<b>Total financial and insurance liabilities</b>	<b>•</b>	<b>•</b>	<b>•</b>

Humboldt Re Limited

<b>Maturity analysis of financial and insurance liabilities</b>	<b>One to three months</b>	<b>Three to 12 months</b>	<b>Total</b>
<b>As at 31 December 2020</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Claims payable	•	•	•
Other payables and accruals	•	•	•
Insurance and reinsurance payables	•	•	•
<b>Total financial and insurance liabilities</b>	<b>•</b>	<b>•</b>	<b>•</b>

#### 7.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market factors. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

##### (a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in foreign exchange rates.

Where the Company holds assets in its managed investment portfolio denominated in currencies other than the functional currency, the Company enters into derivative contracts such as foreign exchange forwards in order to maintain a hedging range of between 98% to 102%.

The Company also manages currency risk by generally only maintaining sufficient balances in each currency account to settle outwards payments due in foreign currencies. In situations where claims liabilities denominated in a currency other than the Company's functional currency are significant, the Company may mitigate the associated currency risk by holding additional cash and cash equivalents in that foreign currency for the purpose of asset and liability matching.

An analysis of the gains or losses that would result in profit or loss from the impact on financial instruments and insurance contract balances (excluding non-monetary items) of an improvement or deterioration of 10% in each currency to which the Company has significant exposure is provided below. The directors believe that 10% improvement or deterioration in foreign exchange rates represents a reasonable possible change and provides year-on-year comparability.

<b>Currency sensitivity analysis</b>	<b>10% improvement</b>	<b>10% deterioration</b>
<b>As at 31 December 2021</b>	<b>USD</b>	<b>USD</b>
AUD	•	•
CHF	•	•
EUR	•	•
GBP	•	•
JPY	•	•

  

<b>Currency sensitivity analysis</b>	<b>10% improvement</b>	<b>10% deterioration</b>
<b>As at 31 December 2020</b>	<b>USD</b>	<b>USD</b>
AUD	•	•
CHF	•	•
EUR	•	•
GBP	•	•
JPY	•	•

An analysis of financial instruments and insurance contract balances (excluding non-monetary items) as at 31 December 2021 by each currency to which the Company has significant exposure is provided below.

Humboldt Re Limited

**Notes to the consolidated financial statements continued****7.4(a) Currency risk continued**

Currency balance sheet	AUD	CHF	EUR	GBP	JPY	Other including USD	Total
<b>As at 31 December 2021</b>							
<b>Assets</b>							
Cash and cash equivalents	•	•	•	•	•	•	•
Financial assets held for trading	•	•	•	•	•	•	•
Insurance receivables	•	•	•	•	•	•	•
Investment in associate	•	•	•	•	•	•	•
Claims recoverable from reinsurers	•	•	•	•	•	•	•
Other receivables	•	•	•	•	•	•	•
Collateral assets	•	•	•	•	•	•	•
<b>Total monetary assets</b>	•	•	•	•	•	•	•
<b>Liabilities</b>							
Claims liabilities	•	•	•	•	•	•	•
Insurance and reinsurance payables	•	•	•	•	•	•	•
Other payables and accruals	•	•	•	•	•	•	•
<b>Total monetary liabilities</b>	•	•	•	•	•	•	•
<b>Net monetary assets/(liabilities)</b>	•	•	•	•	•	•	•

Currency balance sheet	AUD	CHF	EUR	GBP	JPY	Other including USD	Total
<b>As at 31 December 2020</b>							
<b>Assets</b>							
Cash and cash equivalents	•	•	•	•	•	•	•
Financial assets held for trading	•	•	•	•	•	•	•
Insurance receivables	•	•	•	•	•	•	•
Investment in associate	•	•	•	•	•	•	•
Claims recoverable from reinsurers	•	•	•	•	•	•	•
Other receivables	•	•	•	•	•	•	•
Collateral assets	•	•	•	•	•	•	•
<b>Total monetary assets</b>	•	•	•	•	•	•	•
<b>Liabilities</b>							
Claims liabilities	•	•	•	•	•	•	•
Insurance and reinsurance payables	•	•	•	•	•	•	•
Other payables and accruals	•	•	•	•	•	•	•
<b>Total monetary liabilities</b>	•	•	•	•	•	•	•
<b>Net monetary assets/(liabilities)</b>	•	•	•	•	•	•	•

**(b) Interest rate risk**

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its cash and cash equivalents. Investment performance is regularly monitored against benchmarks based on market returns and interest rates.

Humboldt Re Limited

## **Notes to the consolidated financial statements continued**

### **7.4(b) Interest rate risk continued**

If the applicable interest rate on the Company's cash and cash equivalents had been 50 basis points higher or lower throughout the period, the profit of the Company would have decreased or increased by [redacted]. The sensitivity in the interest rate above is based on the maximum estimated potential interest rate change in the next period.

#### **(c) Price risk**

The Company is exposed to price risk because of investments classified as financial assets at fair value through profit or loss. Such investments are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification planning and setting limits on investments in each sector and market.

A 10% increase/decrease in the market value of the Company's financial assets at fair value through profit or loss would result in a [redacted] increase/decrease in the fair value of the Company's financial assets at fair value through profit or loss with a corresponding gain/loss recognised in investment income in profit or loss. The directors believe that 10% improvement or deterioration in market value represents a reasonable possible change and provides year-on-year comparability.

### **7.5 Insurance risk**

#### **(a) Insurance risk management**

The risk under any one insurance contract is the possibility that the insured event occurs, with further risks resulting from the uncertainty of the amount and timing of the resulting claim.

The Company benefits from an underwriting process that uses a combination of experience, knowledge, exposure information and past claims data to evaluate the likely cost of claims and therefore the premium that should be sufficient (across the portfolio of contracts) to produce an acceptable profit. However, due to the nature of insurance risk there is no guarantee that the premium charged will be sufficient, and a loss may arise from insufficient premium being calculated or may result from an unexpected or unprecedented high level of claims.

The underwriting guidelines of the Company clearly define both the lines of business which the Company is authorised to underwrite and specific limits to which the Company can be exposed in relation to each particular line of business. For the purposes of these limits, all relevant risk parameters are aggregated and consolidated on the basis of modelled probable maximum loss.

The Company is also exposed to catastrophe losses which may impact many risks in single or multiple events. Outwards reinsurance is purchased to limit the impact of loss frequency and severity from such events in accordance with the Company's risk appetite.

Where insured events have occurred, the Company faces a risk that the ultimate claims payments exceed the carrying amount of the insurance liabilities at the reporting date. This could occur because the frequency or severity of claims is greater than estimated.

The Company operates a formal actuarial reserving policy that defines in detail the approach taken in determining the reserves held by the Company at each reporting date. The Company records specific loss reserves on each contract at least equal to the estimates reported by cedants and may establish additional specific loss reserves if the cedants' reported estimates are believed by the Company to be inadequate.

The Company records actuarially-determined reserves for claims incurred but not reported based on best estimates of the Company's ultimate loss and loss adjustment expenses at each reporting date. An actuarial valuation was performed by qualified actuaries to estimate the claims liabilities of the

Humboldt Re Limited

**Notes to the consolidated financial statements continued****7.5(a) Insurance risk management continued**

Company as at 31 December 2021 in accordance with the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended.

**(b) Sensitivity to insurance risk**

As disclosed in note 16(b), the most significant assumption in the determination of claims liabilities is the losses assumed for each contract. Changes to estimated loss ratios arising from actuarially-determined information or cedant loss reporting over the lifetime of each contract will result in gains or losses recognised in profit or loss.

Material uncertainty exists in respect of the amount and timing of settlement of claims. Such uncertainty arises due to the timing differences between the occurrence of an insured event, its notification to the primary insurer and subsequently to the Company, and the final settlement of the claim. The amount of a claim is also uncertain until the final settlement is agreed and paid.

**(c) Concentrations of insurance risk**

Policies written by the Company cover worldwide risks with no concentration at a particular location. An analysis of the Company's most material exposures to insured events by type of insured event and geography is provided below. The table shows gross occurrence exceedance probability (OEP) (i.e., the probability that the associated loss level will be exceeded by any event in any given year) for a 100 year return period.

**Concentration analysis by type of insured event and geography****As at 31 December 2021**

	Peril	1/100 gross OEP USD
Australia	Earthquake	•
	Windstorm	•
Europe	Earthquake	•
	Windstorm	•
Japan	Earthquake	•
	Windstorm	•
USA	Earthquake	•
	Windstorm	•

**Concentration analysis by type of insured event and geography****As at 31 December 2020**

	Peril	1/100 gross OEP USD
Australia	Earthquake	•
	Windstorm	•
Europe	Earthquake	•
	Windstorm	•
Japan	Earthquake	•
	Windstorm	•
USA	Earthquake	•
	Windstorm	•

**(d) Claims development**

An analysis of current estimates of claims compared to previous estimates is provided below. The analysis is presented on an underwriting year basis and excludes changes in claims liabilities and claims recoverable from reinsurers arising from fluctuations in foreign exchange rates. As such, the disclosures do not reconcile to the Company's consolidated statement of financial position.

The Company chooses to present claims development based on estimates of incurred losses on each contract, which do not include losses not yet incurred. There is therefore a reasonable expectation that the estimate of incurred claims at the end of each underwriting year may subsequently increase one year later where the risk coverage of policies written continues into the next financial year and claims continue to be incurred.

Humboldt Re Limited

**Notes to the consolidated financial statements continued****7.5(d) Claims development continued****Claims development  
by underwriting year  
– gross basis**

	2015 USD	2016 USD	2017 USD	2018 USD	2019 USD	2020 USD
Estimate of incurred claims at end of underwriting year	•	•	•	•	•	•
One year later	•	•	•	•	•	•
Two years later	•	•	•	•	•	
Three years later	•	•	•	•		
Four years later	•	•	•			
Five years later	•	•				
Six years later	•					
Cumulative payments	•	•	•	•	•	•
<b>Estimated balance</b>	•	•	•	•	•	•

**Claims development  
by underwriting year  
– net basis**

	2015 USD	2016 USD	2017 USD	2018 USD	2019 USD	2020 USD
Estimate of incurred claims at end of underwriting year	•	•	•	•	•	•
One year later	•	•	•	•	•	•
Two years later	•	•	•	•	•	
Three years later	•	•	•	•		
Four years later	•	•	•			
Five years later	•	•				
Six years later	•					
Cumulative payments	•	•	•	•	•	•
<b>Estimated balance</b>	•	•	•	•	•	•

As the Company was placed into run-off in December 2020, no inwards contracts were written in 2021. Accordingly, no claims have been incurred in the respect to the 2021 underwriting year.

**7.6 Covid 19**

Redacted.

**8. Fair value of financial instruments****8.1 Fair value measurements**

The fair value of financial instruments at fair value through profit or loss is based on the market value provided by the investment manager.

**8.2 Fair value hierarchy****(a) Classification**

The Company measures the fair value of financial instruments using a fair value hierarchy that reflects the significance of the input used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety. In making the assessment, the Company considers factors specific to the asset or liability.

Humboldt Re Limited

**Notes to the consolidated financial statements continued****8.2 Fair value hierarchy continued****(b) Fair value hierarchy table**

An analysis of the Company's financial instruments at fair value through profit or loss by fair value hierarchy level is provided below.

<b>Fair value hierarchy As at 31 December 2021</b>	<b>Level 1 USD</b>	<b>Level 2 USD</b>	<b>Level 3 USD</b>	<b>Total USD</b>
Bonds	.	.	.	.
Funds at Lloyd's	.	.	.	.
<b>Total financial assets at fair value through profit or loss</b>	.	.	.	.
Derivative financial instruments	.	.	.	.
<b>Total financial liabilities at fair value through profit or loss</b>	.	.	.	.
<b>Fair value hierarchy As at 31 December 2020</b>	<b>Level 1 USD</b>	<b>Level 2 USD</b>	<b>Level 3 USD</b>	<b>Total USD</b>
Bonds	.	.	.	.
Funds at Lloyd's	.	.	.	.
<b>Total financial assets at fair value through profit or loss</b>	.	.	.	.
Derivative financial instruments	.	.	.	.
<b>Total financial liabilities at fair value through profit or loss</b>	.	.	.	.

Redacted.

**(c) Financial instruments not measured at fair value**

The Company's loan and receivables and other financial liabilities that are described in notes 11, 12 and 16 are carried at amounts that approximate to their fair value and are categorised as Level 2 in the fair value hierarchy.

Cash and cash equivalents of [redacted] are carried at amounts that approximate to their fair value and are categorised as Level 1 in the fair value hierarchy.

**9. Capital management**

The Company's objective when managing capital is to support its business in addition to adhering to regulatory requirements. The Company complies with the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended. The capital management policies adopted by the Company are operated to ensure the Company's ability to continue as a going concern and in order to target returns for the shareholder and benefits for stakeholders. The Board meets quarterly to agree the Company's immediate and long-term capital requirements, including review of the Company's forecasts, cash projections and insurance risk exposures.

The directors also review the Company's capital structure on a regular basis to ensure adequate funds are available to meet its obligations and comply with the solvency margin requirements required by the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended. In accordance with the

Humboldt Re Limited

**Notes to the consolidated financial statements continued****9. Capital management continued**

Insurance Business (Solvency) Rules, 2015, the Company is required at all times to maintain regulatory capital resources greater than or equal to its Minimum Capital Requirement and its Prescribed Capital Requirement.

The Company complied with the externally imposed capital requirements to which it was subject during the years ended 31 December 2021 and 31 December 2020.

The total amount of capital of the Company at 31 December 2021 was USD 257,610,999 (2020: USD 386,725,747), being net assets attributable to the holder of ordinary shares.

**10. Financial instruments****(a) Composition of financial assets**

	Held for trading	Designated at fair value through profit or loss at inception	Loans and receivables	Total
As at 31 December 2021	USD	USD	USD	USD
Cash and cash equivalents	•	•	•	•
Bonds	•	•	•	•
Funds at Lloyd's	•	•	•	•
Other receivables	•	•	•	•
Other collateral assets	•	•	•	•
<b>Total financial assets</b>	<b>•</b>	<b>•</b>	<b>•</b>	<b>•</b>
Financial assets	Held for trading	Designated at fair value through profit or loss at inception	Loans and receivables	Total
As at 31 December 2020	USD	USD	USD	USD
Cash and cash equivalents	•	•	•	•
Bonds	•	•	•	•
Funds at Lloyd's	•	•	•	•
Other receivables	•	•	•	•
Other collateral assets	•	•	•	•
<b>Total financial assets</b>	<b>•</b>	<b>•</b>	<b>•</b>	<b>•</b>

Redacted.

Humboldt Re Limited

**Notes to the consolidated financial statements continued****10. Financial instruments continued****(b) Composition of financial liabilities**

	Designated at fair value through profit or loss at inception USD	Other financial liabilities USD	Total USD
<b>Financial liabilities</b>			
<b>As at 31 December 2021</b>			
Other payables	.	.	.
<b>Total financial liabilities</b>	<u>.</u>	<u>.</u>	<u>.</u>
	Designated at fair value through profit or loss at inception USD	Other financial liabilities USD	Total USD
<b>Financial liabilities</b>			
<b>As at 31 December 2020</b>			
Other payables	.	.	.
<b>Total financial liabilities</b>	<u>.</u>	<u>.</u>	<u>.</u>

Redacted.

**(c) Reconciliation of opening and closing financial instruments**

<b>Reconciliation of opening and closing financial assets</b>	<b>2021</b>	<b>2020</b>
<b>As at 31 December</b>	<b>USD</b>	<b>USD</b>
Opening balance at 1 January	.	.
Investment portfolio purchases	.	.
Investment portfolio sales	.	.
(Loss)/Gains on financial assets at fair value through profit or loss	.	.
Net increase/(decrease) in cash and cash equivalents	.	.
Net (decrease)/increase in other receivables	.	.
Net (decrease) in collateral assets	.	.
<b>Closing balance at 31 December</b>	<u>.</u>	<u>.</u>
<b>Reconciliation of opening and closing financial liabilities</b>	<b>2021</b>	<b>2020</b>
<b>As at 31 December</b>	<b>USD</b>	<b>USD</b>
Opening balance at 1 January	.	.
Settlements	.	.
Liabilities incurred	.	.
<b>Closing balance at 31 December</b>	<u>.</u>	<u>.</u>

**11. Insurance receivables**

Redacted.

**12. Other receivables and prepayments**

<b>Other receivables and prepayments</b>	<b>2021</b>	<b>2020</b>
<b>As at 31 December</b>	<b>USD</b>	<b>USD</b>
Interest income receivable	.	.
Sundry receivables	.	.
<b>Total receivables</b>	<u>.</u>	<u>.</u>
Prepayments	.	.
<b>Total other receivables and prepayments</b>	<u>.</u>	<u>.</u>

Humboldt Re Limited

**Notes to the consolidated financial statements continued****12. Other receivables and prepayments continued**

Redacted.

**13. Deferred insurance and reinsurance assets****(a) Composition of deferred insurance and reinsurance assets**

<b>Deferred insurance and reinsurance assets As at 31 December</b>	<b>2021 USD</b>	<b>2020 USD</b>
Deferred acquisition costs	•	•
Deferred other underwriting expenses	•	•
Unexpensed outwards reinsurance premium	•	•
<b>Total deferred insurance and reinsurance assets</b>	<b>•</b>	<b>•</b>

Redacted.

**(b) Reconciliation of changes in deferred insurance and reinsurance assets**

<b>Reconciliation of changes in deferred insurance and reinsurance assets As at 31 December 2021</b>	<b>Deferred acquisition costs USD</b>	<b>Deferred other underwriting expenses USD</b>	<b>Unexpensed outwards reinsurance premium USD</b>
Opening balance at 1 January 2021	•	•	•
Deferred during the period	•	•	•
Amortised during the period	•	•	•
<b>Closing balance at 31 December 2021</b>	<b>•</b>	<b>•</b>	<b>•</b>
<b>Reconciliation of changes in deferred insurance and reinsurance assets As at 31 December 2020</b>	<b>Deferred acquisition costs USD</b>	<b>Deferred other underwriting expenses USD</b>	<b>Unexpensed outwards reinsurance premium USD</b>
Opening balance at 1 January 2020	•	•	•
Deferred during the period	•	•	•
Amortised during the period	•	•	•
<b>Closing balance at 31 December 2020</b>	<b>•</b>	<b>•</b>	<b>•</b>

**14. Collateral assets**

<b>Collateral assets As at 31 December</b>	<b>2021 USD</b>	<b>2020 USD</b>
Funds at Lloyd's	•	•
Letters of credit	•	•
Reinsurance trusts	•	•
Other	•	•
<b>Total collateral assets</b>	<b>•</b>	<b>•</b>

Funds at Lloyd's are deposited to support the underwriting activities of the Company's participation in the Arcus 1856 syndicate.

Letters of credit comprise cash-backed commitments to cedants to support future loss payments.

Humboldt Re Limited

**Notes to the consolidated financial statements continued****14. Collateral assets continued**

Reinsurance trusts comprise premiums receivable by the Company for which access is restricted in trust until the passage of time and claims experience, as defined by the contract, allows release of the funds to the Company.

Other collateral assets comprise payments made to support outwards reinsurance contracts entered into by the Company.

Redacted.

**15. Share capital**

<b>Share capital</b>	<b>2021</b>	<b>2020</b>
<b>As at 31 December</b>	<b>USD</b>	<b>USD</b>
Authorised, issued and fully paid shares at USD 1.026167 par value – 5,000 ordinary shares	5,131	5,131
Share premium	•	•
<b>Total share capital</b>	<u>•</u>	<u>•</u>

The issued and fully paid shares are held by Marco Capital Holdings Limited. Marco Capital Holdings Limited also acquired the entirety of the share premium on acquisition of the Company.

**16. Claims liabilities and claims recoverable from reinsurers****(a) Composition of claims liabilities and claims recoverable from reinsurers**

<b>Claims liabilities and claims recoverable from reinsurers</b>	<b>2021</b>	<b>2020</b>
<b>As at 31 December</b>	<b>USD</b>	<b>USD</b>
<b>Claims liabilities</b>		
Claims payable	•	•
Specific loss reserves	•	•
Incurred but not reported reserves	•	•
Unallocated loss adjustment expenses	•	•
Cash call advances paid to cedants	•	•
<b>Total claims liabilities</b>	<u>•</u>	<u>•</u>
<b>Claims recoverable from reinsurers</b>		
Reinsurance receivables	•	•
Reinsurers' share of specific loss reserves	•	•
Reinsurers' share of incurred but not reported reserves	•	•
Cash call advances received from reinsurers	•	•
<b>Total claims recoverable from reinsurers</b>	<u>•</u>	<u>•</u>
<b>Net claims liabilities</b>		
Net claims payable	•	•
Net specific loss reserves	•	•
Net incurred but not reported reserves	•	•
Net unallocated loss adjustment expenses	•	•
Net cash call advances paid and received	•	•
<b>Total net claims liabilities</b>	<u>•</u>	<u>•</u>

Claims liabilities and claims recoverable from reinsurers are classified as current liabilities and current assets respectively as the Company expects to settle and recover the amounts no more than 12 months after the reporting period.

Humboldt Re Limited

**Notes to the consolidated financial statements continued****16. Claims liabilities and claims recoverable from reinsurers continued****(b) Process for determining assumptions used in measurement of claims liabilities**

The most significant component of the total claims liabilities disclosed above is incurred but not reported (IBNR) reserves. As described in note 7.5(a) above, the Company operates a formal actuarial reserving policy that defines in detail the approach taken in determining the reserves held by the Company at each reporting date.

Initial IBNR reserves are accrued on a contract-by-contract basis using *a priori* loss ratios that typically use the initial pricing ratio for each contract. Such initial pricing loss ratios may be based on a variety of methodologies including catastrophe model outputs and exceedance probability curves, burning cost analyses and other actuarial on-levelling and development methods. The Company does not accrue *a priori* IBNR reserves on contracts classified as catastrophe excess of loss contracts in accordance with the Company's actuarial reserving policy, as such contracts are typically binary in nature.

Updates to initial *a priori* reserves are made on a quarterly basis based on the most recent loss information available. The quarterly analysis performed uses various generally accepted actuarial methods including loss development methods, expected emergence methods and expected loss ratio methods. Where applicable, for example where a cedant's loss history is limited or volatile, the Company utilises industry loss development patterns, trends and other key assumptions to supplement the historical loss information provided by the cedant.

When a catastrophic loss occurs, the Company identifies potentially impacted contracts based on each contract's terms, discussions with the underwriter responsible for the contract, and any submission data provided by the cedant prior to policy inception. The Company then develops an estimate of initial ultimate loss for each potentially impacted contract using information that may include: outputs from catastrophe models; market share data; publicly available information; and subjective assessment of a contract's loss potential. Such initial ultimate loss estimates are held as IBNR reserves until loss reporting is received from the cedant.

**(c) Effect of changes in assumptions**

Changes in the estimated losses on the contracts written by the Company result in gains or losses recognised in profit or loss. The estimated claims liabilities in respect of claims incurred in previous reporting periods may change in the current period as the estimated ultimate costs of settling those claims becomes more certain over time. The effect of movements on claims incurred in previous periods in the current year is disclosed in note 16(d) below. Claims development tables comparing the estimates of ultimate claims at the end of each underwriting year to current estimates are provided in note 7.5(d).

**(d) Reconciliation of changes in net claims liabilities**

<b>Reconciliation of changes in net claims liabilities</b>	<b>Claims liabilities</b>	<b>Claims recoverable from reinsurers</b>	<b>Net claims liabilities</b>
<b>As at 31 December 2021</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Opening balance at 1 January 2021	•	•	•
Claims incurred and recoverable during the period	•	•	•
- Current underwriting year			
- Previous underwriting years (including movement on claims incurred and recoverable in previous periods)	•	•	•
Cash call advances paid and received	•	•	•
Claims paid and recovered	•	•	•
Foreign exchange differences	•	•	•
<b>Closing balance at 31 December 2021</b>	<b>•</b>	<b>•</b>	<b>•</b>

Humboldt Re Limited

**Notes to the consolidated financial statements continued****16(d). Reconciliation of changes in net claims liabilities continued**

<b>Reconciliation of changes in net claims liabilities</b>	<b>Claims liabilities</b>	<b>Claims recoverable from reinsurers</b>	<b>Net claims liabilities</b>
<b>As at 31 December 2020</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Opening balance at 1 January 2020	•	•	•
Claims incurred and recoverable during the period	•	•	•
- Current underwriting year			
- Previous underwriting years (including movement on claims incurred and recoverable in previous periods)	•	•	•
Cash call advances paid and received	•	•	•
Claims paid and recovered	•	•	•
Foreign exchange differences	•	•	•
<b>Closing balance at 31 December 2020</b>	<b>•</b>	<b>•</b>	<b>•</b>

**17. Insurance and reinsurance payables**

<b>Insurance and reinsurance payables</b>	<b>2021</b>	<b>2020</b>
<b>As at 31 December</b>	<b>USD</b>	<b>USD</b>
Reinsurance premiums payable	•	•
Other underwriting expenses payable	•	•
<b>Total insurance and reinsurance payables</b>	<b>•</b>	<b>•</b>

Redacted.

**18. Deferred insurance and reinsurance liabilities****(a) Composition of deferred insurance and reinsurance liabilities**

<b>Deferred insurance and reinsurance liabilities</b>	<b>2021</b>	<b>2020</b>
<b>As at 31 December</b>	<b>USD</b>	<b>USD</b>
Unearned premium reserve	•	•
<b>Total deferred insurance and reinsurance liabilities</b>	<b>•</b>	<b>•</b>

Redacted.

**(b) Reconciliation of changes in deferred insurance and reinsurance assets**

<b>Reconciliation of changes in deferred insurance and reinsurance liabilities</b>	<b>Unearned premium reserve</b>	<b>Unearned commission income</b>
<b>As at 31 December 2021</b>	<b>USD</b>	<b>USD</b>
Opening balance at 1 January 2021	•	•
Deferred during the period	•	•
Amortised during the period	•	•
<b>Closing balance at 31 December 2021</b>	<b>•</b>	<b>•</b>

Humboldt Re Limited

**Notes to the consolidated financial statements continued****18(b). Reconciliation of changes in deferred insurance and reinsurance assets continued**

<b>Reconciliation of changes in deferred insurance and reinsurance liabilities</b>	<b>Unearned premium reserve</b>	<b>Unearned commission income</b>
<b>As at 31 December 2020</b>	<b>USD</b>	<b>USD</b>
Opening balance at 1 January 2020	•	•
Deferred during the period	•	•
Amortised during the period	•	•
<b>Closing balance at 31 December 2020</b>	<b>•</b>	<b>•</b>

**19. Net other investment income and expenses**

<b>Net other investment income and expenses</b>	<b>2021</b>	<b>2020</b>
<b>As at 31 December</b>	<b>USD</b>	<b>USD</b>
Net bank interest income	•	•
Investment management fees	•	•
Other investment income and expenses	•	•
<b>Total net other investment income and expenses</b>	<b>•</b>	<b>•</b>

**20. Administration expenses**

<b>Administration expenses</b>	<b>2021</b>	<b>2020</b>
<b>As at 31 December</b>	<b>USD</b>	<b>USD</b>
Management fees	•	•
Origination fees	•	•
Directors' and personnel costs	•	•
Regulatory and licensing fees	•	•
Legal and professional fees	•	•
Audit fees	•	•
Travel and subsistence	•	•
Bank charges	•	•
Group recharges	•	•
Other administration expenses	•	•
<b>Total administration expenses</b>	<b>•</b>	<b>•</b>

**21. Related party transactions****(a) Key management personnel**

Redacted.

**(b) Director expenses**

Expenses incurred by directors in the course of discharging their duties to the Company, for example travel expenses, are recharged to the Company.

**(c) Parent company**

The Company's immediate parent is Marco Capital Holdings Limited. The accounts of Marco Capital Holdings Limited are available for public use.

Redacted.

**(d) Legal services**

Mr Anderson acts as a partner of Carey Olsen (Guernsey) LLP which provides legal services to the Company. Redacted.

Humboldt Re Limited

***Notes to the consolidated financial statements continued***

**22. Events after the reporting period**

There were no events after the reporting period up to the date the financial statements were authorised for issue that would require adjustment or disclosure in this set of consolidated financial statements.