AWBURY

AWBURY INSURANCE LTD.

Financial Statements
(With Independent Auditor's Report Thereon)

Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Awbury Insurance Ltd.

Opinion

We have audited the financial statements of Awbury Insurance Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income and comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for opinion

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

In performing an audit in accordance with GAAS, we:

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

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

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 18, 2022

AWBURY INSURANCE LTD.

Balance Sheets

December 31, 2021 and 2020
(Expressed in United States Dollars)

	2021	2020
Assets		
Cash and cash equivalents (Note 2e)	$ 22,844,062	$ 22,075,849
Premium receivable (Note 7)	99,804,470	49,502,117
Commission receivable	295,949,792	254,470,706
Net deferred tax asset (Note 11)	3,986,614	1,614,419
Deferred acquisition costs	594,045	–
Losses recoverable	222,737	–
Prepaid asset	59,999	68,784
Total assets	$ 423,461,719	$ 327,731,875
Liabilities		
Loss and loss adjustment expenses (Note 8)	$ 3,666,784	$ 409,032
Unearned premiums (Note 7)	89,230,449	42,408,837
Amounts due to affiliates (Note 13)	16,916,601	11,819,006
Commission payable	528,528	–
Current tax liability (Note 11)	7,315,119	5,261,244
Deferred commission income	240,876,001	217,869,823
Other liabilities	249,593	264,462
Total liabilities	358,783,075	278,032,404
Shareholder's equity		
Ordinary share capital (Note 15)	120,000	120,000
Additional paid in capital (Note 15)	1,127,400	1,127,400
Retained earnings	63,431,244	48,452,071
Total shareholder's equity	64,678,644	49,699,471
Total liabilities and shareholder's equity	$ 423,461,719	$ 327,731,875

See accompanying notes to financial statements

AWBURY INSURANCE LTD.

Statements of Income and Comprehensive Income

Years ended December 31, 2021 and 2020
(Expressed in United States Dollars)

	2021	2020
Income		
Net premiums written (Notes 7 and 9)	$ 56,937,777	$ 5,186,782
Change in unearned premiums	(48,117,748)	565,200
Premiums earned	8,820,029	5,751,982
Other income		
Net investment income (Note 3)	3,230,904	3,819,244
Net realized and unrealized gain on derivative instruments (Notes 5 and 14)	7,233,348	6,289,597
Other insurance income (Note 10)	36,602,032	36,660,207
Total income	55,886,313	52,521,030
Expenses		
Loss expenses (Note 8)	(3,257,752)	(409,032)
General and administrative expenses (Note 13)	(28,186,135)	(28,721,419)
Foreign exchange gain/(loss)	(1,683,977)	1,457,887
Total expenses	(33,127,864)	(27,672,564)
Income before tax expenses	22,758,449	24,848,466
Provision for income tax (Note 11)	(4,779,276)	(5,211,759)
Net income, being comprehensive income	$ 17,979,173	$ 19,636,707

See accompanying notes to financial statements

AWBURY INSURANCE LTD.

Statements of Changes in Shareholder's Equity

Years ended December 31, 2021 and 2020
(Expressed in United States Dollars)

	2021	2020
Ordinary share capital		
Balance at beginning and end of year	$ 120,000	$ 120,000
Additional paid in capital		
Balance at beginning and end of year	1,127,400	1,127,400
Retained earnings		
Balance at beginning of year	48,452,071	34,815,364
Dividends paid	(3,000,000)	(6,000,000)
Net income for the year	17,979,173	19,636,707
Balance at end of year	63,431,244	48,452,071
Total shareholder's equity	$ 64,678,644	$ 49,699,471

See accompanying notes to financial statements

AWBURY INSURANCE LTD.

Statements of Cash Flows

Years ended December 31, 2021 and 2020
(Expressed in United States Dollars)

	2021	2020
Cash flows from operating activities		
Net income attributable to ordinary shareholder	$ 17,979,173	$ 19,636,707
Adjustments to reconcile net income to net cash provided by operating activities:		
Premium receivable	(50,302,353)	(4,995,229)
Commission receivable	(40,950,558)	(23,888,702)
Net deferred tax asset/liability	(2,372,195)	114,165
Unrealized gain on derivative asset	–	985,356
Reserve for outstanding losses	3,035,015	409,032
Unearned premiums	46,821,611	918,568
Amounts due to affiliates	5,097,595	5,634,750
Current tax liability/asset	2,065,539	(537,156)
Deferred commission income	22,412,133	2,042,836
Other liabilities/assets	(17,747)	(48,351)
Net cash provided by operating activities	3,768,213	271,976
Cash flows from financing activities		
Dividends paid on ordinary shares	$ (3,000,000)	$ (6,000,000)
Net cash used in financing activities	(3,000,000)	(6,000,000)
Net increase/(decrease) in cash and cash equivalents	768,213	(5,728,024)
Cash and cash equivalents at beginning of year	22,075,849	27,803,873
Cash and cash equivalents at end of year	$ 22,844,062	$ 22,075,849
Taxes paid	–	–

See accompanying notes to financial statements

1. Description of business

Awbury Insurance Ltd. (the "Company") was incorporated in Bermuda on December 1, 2011 and registered as a segregated accounts company on December 15, 2011 under the Segregated Accounts Companies Act 2000 (the "SAC Act"). The Company was licensed as a Class 3A Insurer under the Insurance Act 1978 to carry on general business effective December 16, 2011. The Company is wholly owned by Awbury Group LLC., a company incorporated in the United States of America.

Pursuant to the Company's registration as a segregated accounts company, the general assets of the Company are not available to satisfy liabilities arising from the activities of the segregated accounts. The segregated account assets and liabilities are legally segregated from the general assets and liabilities of the Company (the "General Account") and general creditors.

The Company, via its segregated accounts (the "Segregated Accounts"), provides insurance solutions to its clients, including payment default insurance and capital relief insurance.

2. Summary of significant accounting policies

The accompanying financial statements are prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. The major estimates recorded in the Company's financial statements include, but are not limited to, estimates of premiums written and earned premiums the reserve for losses and loss adjustment expenses and the fair value of derivative contracts. The following are the significant accounting policies adopted by the Company:

(a) Premium revenue recognition

Premiums written are recorded on an accruals basis, except for financial guarantee contracts and contracts that are accounted for on a deposit basis. Premiums written are recognized on a pro-rata basis over the periods covered by the insurance policies or contracts of reinsurance to which they relate. The portion of the premiums written applicable to the unexpired terms of the underlying contracts and policies are recorded as unearned premiums.

For multi-year policies which are payable in annual installments the initial annual installment is included as premium written at policy inception in cases where the insured is able to cancel coverage during the term of the policy. The remaining annual installments are included as premium written at each successive anniversary date within the policy term.

Financial guarantee insurance contract premiums written are based on gross premiums due under the terms of the insurance contract. The Company earns premiums over the period of the contract in proportion to the amount of insurance protection provided, with a corresponding adjustment in unearned premium reserves.

Contracts that do not transfer significant insurance risk are accounted for under the accounting guidance in ASC 320, "*Other Assets and Deferred Costs*" and are not recognized as insurance premium.

2. **Summary of significant accounting policies** (continued)

(a) Premium revenue recognition (continued)

Financial guarantee

The Company writes payment default insurance which has the characteristics of financial guarantee insurance and is multi-year in nature. Accounting for financial guarantee contracts that meet the scope exception under derivative accounting guidance, ASC 815, "*Derivatives and Hedging*" is subject to industry specific guidance for financial guarantee insurance within ASC 944, "*Financial Services – Insurance*". The accounting for contracts that fall under the financial guarantee insurance definition is consistent whether the contract was written on a direct basis, assumed from another financial guarantor under a reinsurance treaty, or ceded to another insurer under a reinsurance treaty.

The amount of unearned premium reserve at contract inception is determined as follows:

- For premiums received upfront on financial guarantee insurance contracts that were originally underwritten by the Company, unearned premium reserve is equal to the amount of cash received.

- For premiums received in installments on financial guarantee insurance contracts that were originally underwritten or assumed by the Company, unearned premium reserve is the present value of either: (1) contractual premiums due, or (2), in the cases where the underlying collateral is comprised of homogeneous pools of assets, the expected premiums to be collected over the life of the contract. To be considered a homogenous pool of assets, prepayments must be contractually pre-payable, the amounts of prepayments must be probable, and the timing and amounts of prepayments must be reasonably estimable. When the Company adjusts prepayment assumptions or expected premium collections, an adjustment is recorded to the unearned premium reserve, with a corresponding adjustment to the premium receivable; and prospective changes are recognized in premium revenues.

- A number of the insurance policies written by the Company that fall under the financial guarantee definition do not have predetermined installments or amounts due. The premium amounts due on these policies are contingent upon distributions received during the contract term. The Company estimates total contractual premiums due by analysis and modelling of expected cash flows based on historical performance of similar investments and earns these over the contract period. Subsequent changes to the estimates of contractual premiums due are recorded as an adjustment to the unearned premium reserve, with a corresponding adjustment to the premium receivable; and prospective changes are recognized in premium revenues.

- The Company recognizes earned premium over the contractual period of the contract in proportion to the amount of insurance protection provided. As premium revenue is recognized, a corresponding decrease to the unearned premium reserve is recorded.

At contract inception, a corresponding receivable for premiums is recorded equivalent to the unearned premium reserve. Premiums receivable are discounted at the risk-free rate at inception and the discount rate is updated when changes to prepayment assumptions are made that change the expected date of final maturity.

Risk management is performed by the Chief Risk Officer (the "CRO"). The CRO monitors the portfolio for developments that could lead to a possible loss or change in estimates. Capital markets, rating agency reports, insureds' reporting, and data provided by third party sources is actively monitored.

2. Summary of significant accounting policies (continued)

(a) Premium revenue recognition (continued)

Financial guarantee (continued)

A claim liability is also recorded equal to the present value of expected net cash outflows to be paid under the insurance contract discounted using a current risk-free rate based on the remaining period of the insurance contract. Under financial guarantee accounting, the sum of unearned premium reserve and loss and loss adjustment expense reserve represents the Company's stand-ready obligation on a contract by contract basis. Expected loss to be expensed is the Company's projection of incurred losses that will be recognized in future periods, excluding accretion of discount.

The Company's carrying value of premium receivables is an approximation of fair value.

As of December 31, 2021 and 2020 all of the financial obligations underlying the Company's financial guarantee contracts were deemed to be fully recoverable. The Company recorded a loss expense reserve for the year ended December 31, 2021 of $ 2,967,254 (2020: $ 351,192).

Deposit accounting

Contracts entered into by the Company that are not deemed to transfer both significant underwriting and timing risk are accounted for as deposits, whereby liabilities are initially recorded at an amount equal to the assets received.

The Company uses a portfolio rate of return of equivalent duration to the liabilities in determining risk transfer. An initial accretion rate is established based on actuarial estimates, whereby the deposit liability is increased to the estimated amount payable over the term of the contract. The deposit accretion rate is the rate of return required to fund expected future payment obligations (this is equivalent to the "best estimate" of future cash flows), which are determined actuarially based upon the nature of the underlying indemnifiable losses. Accretion of the liability is recorded as interest expense. The Company periodically reassesses the estimated ultimate liability. Any changes to this liability are reflected as adjustments to interest expense to reflect the cumulative effect of the period the contract has been in force, and by an adjustment to the future accretion rate of the liability over the remaining estimated contract term.

Management has recorded a deposit asset or liability based upon the consideration received, net of any explicitly identified premiums which are to be retained by the Company, irrespective of the experience of the contract.

Deferred commission income

Deferred commission income represents unearned commission income from the business the Company has underwritten and is amortized over the period in which the related premiums are earned.

(c) Outstanding losses and loss expenses

Losses and loss expenses paid are recorded when advised by the ceding companies or insureds. Outstanding losses comprise estimates of the amount of reported losses and loss expenses received from the ceding companies or insured plus a provision for losses incurred but not reported based on management estimates using the past loss experience, where available, and industry data.

2. Summary of significant accounting policies (continued)

(c) Outstanding losses and loss expenses (continued)

Management believes that the provision for outstanding losses and loss expenses will be adequate to cover the ultimate net cost of losses incurred to the balance sheet date but the provision is necessarily an estimate and may ultimately be settled for a significantly greater or lesser amount. It is at least reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences arising are recorded in the year in which they are determined.

Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

(d) Fair value measurements

The Company's estimates of fair value measurements are based on the framework set out in ASC 820, *"Fair Value Measurement"* which establishes that a fair value measurement reflects the assumptions market participants would use in pricing an asset or liability based on the best information available with the objective of estimating the price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants (the "exit price"). Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. Fair value measurements are not adjusted for transaction costs but do include consideration of costs and benefits.

<u>Basis of fair value measurement</u>

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

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

Details on assets and liabilities that have been included under the requirements of authoritative guidance on fair value measurements to illustrate the bases for determining the fair values of these items held by the Company are included in Note 5.

(e) Cash and cash equivalents

<u>Cash equivalents</u>

Cash and cash equivalents include money market accounts and highly liquid short term deposits and securities with maturities of 90 days or less at the time of purchase. Bank deposits are not considered to be fair value measurements and as such are not subject to the authoritative guidance on fair value measurement disclosures.

2. Summary of significant accounting policies (continued)

(e) Cash and cash equivalents (continued)

Restricted cash

Restricted cash represents cash and cash equivalents that the Company is a) holding for the benefit of a third party and is legally or contractually restricted as to withdrawal or usage for general corporate purposes; and b) not replaceable by another type of asset other than cash or cash equivalents, under the terms of the Company's contractual arrangements with such third parties. The Company held no restricted cash as at December 31, 2021 and 2020.

(f) Derivatives

The Company recognizes all derivatives as either assets or liabilities in the balance sheets and measures those instruments at fair value. The changes in fair value of derivatives are shown in the statements of income and comprehensive income as "net realized and unrealized gain on derivative instruments" unless the derivatives are designated as hedging instruments. The Company has no derivatives which are designated as hedging instruments. Changes in fair value of derivatives may create volatility in the Company's results of operations from period to period.

The fair value of derivative financial instruments at the reporting date generally reflects the amount that the Company would receive or pay to terminate the contract at the reporting date. Derivative contracts can be exchange-traded or over-the-counter ("OTC"). Exchange-traded derivatives (futures and options) typically fall within Level 1 of the fair value hierarchy depending on whether they are deemed to be actively traded or not. OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources where an understanding of the inputs utilized in arriving at the valuations is obtained. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms and specific risks inherent in the instrument as well as the availability of pricing information in the market.

The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, interest rate swaps and options, model inputs can generally be verified; and model selection does not involve significant management judgment. These instruments are typically classified within Level 2 of the fair value hierarchy. Certain OTC derivatives trade in less liquid markets, with limited pricing information, or required model inputs which are not directly market corroborated, which causes the determination of fair value for these derivatives to be inherently more subjective. Accordingly, such derivatives are classified within Level 3 of the fair value hierarchy and comprise all the derivatives held by the company. The valuations of less standard or liquid OTC derivatives are typically based on Level 1 and/or Level 2 inputs that can be observed in the market, as well as unobservable Level 3 inputs. Level 1 and Level 2 inputs are regularly updated to reflect observable market changes. Level 3 inputs are only changed when corroborated by evidence such as similar market transactions, pricing services and/or broker or dealer quotations.

2. Summary of significant accounting policies (continued)

(g) Foreign exchange transactions

The Company's functional currency is the U.S. dollar ("USD"). Monetary assets and liabilities denominated in foreign currencies are translated into USD at the exchange rates in effect at the balance sheet date, with the resulting foreign exchange gains and losses included in earnings. Revenues and expenses denominated in foreign currencies are translated at the prevailing exchange rate on the policy inception date, with the resulting foreign exchange gains and losses on settlement or revaluation recognized in earnings.

For the Company's financial guarantee insurance policies, the premium receivable, reinsurance premium payable and ceding commission receivables are monetary assets and liabilities that may be settled in foreign currency. For unearned premium balances, ASC 944 requires a loss provision when the insurer expects that the probability weighted present value of an expected claim loss will exceed the unearned premium revenue for that contract. The guidance defines unearned premium as the insurance entity's stand-ready obligation under a financial guarantee contract at initial recognition as well as the valuation of the loss provision net of unearned premium. As a stand-ready obligation, the unearned premium balance reflects a liability that may be settled in the foreign currency and is a monetary balance. The Company translates unearned premium and premium receivable balances for its financial guarantee insurance contracts to USD using the exchange rates effective at the balance sheet date.

(h) Segregated account assets and liabilities

Segregated accounts assets and liabilities are recorded consistently with general account assets and liabilities.

The Company underwrites most policies through a segregated account. Each policy written by the Segregated Accounts provides that only the assets available within the segregated account are available to satisfy the obligations attributed to that segregated account.

The Company's financial statements reflect the assets, liabilities and income of its General Account. Each segregated account is analyzed under the accounting guidance of ASC 810, *"Consolidation"* to determine whether it is subject to variable interest entity ("VIE") consolidation requirements and should be consolidated by the Company. Any segregated account for which the General Account is deemed to be the primary beneficiary is consolidated by the Company. For those accounts which are not consolidated by the General Account, any income or loss in the segregated account is not reflected in the Company's statements of income and comprehensive income. The Company has concluded that the General Account is the primary beneficiary of one of the segregated accounts and thus has consolidated its assets, liabilities and income into the Company's financial results.

(i) Income taxes

Income taxes are accounted for under the balance sheet approach required by ASC 740, "*Income Taxes*". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities, and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured at tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

2. Summary of significant accounting policies (continued)

(i) Income taxes (continued)

The Company recognizes the tax benefits of uncertain tax positions only where the position is more likely than not to be sustained upon audit by tax authorities. Recognized income tax positions are measured at the largest amount that has a greater than 50 percent likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company recognizes accruals for any interest and penalties related to underpaid taxes in income tax expenses.

(j) General and administrative expenses

General and administrative expenses represent the costs incurred in running the business and include, but are not limited to: employee compensation, IT and operating costs, and professional and consultancy costs. Expenses are recognized on an accrual basis.

(k) Net investment income

Investment income includes amounts received and accrued in respect of interest payable to the Company on cash and cash equivalents as well as earnings related to insurance policies that have been accounted for as deposit liabilities. Investment management and custody fees are charged against net investment income reported in the statements of income and comprehensive income.

(l) Other insurance income

Other insurance income includes commission received for reinsurance and product structuring services provided. Fees are earned over the period of the contracts.

(m) Contingent liabilities

From time to time in the normal course of business, the Company may be involved in formal and informal dispute resolution procedures, which may include arbitration or litigation, the outcomes of which determine the rights and obligations of (re)insurance contracts, and other contractual agreements, or other matters as the case may be. While the final outcome of legal disputes that may arise cannot be predicted with certainty, we do not believe that the eventual outcome of any specific litigation, arbitration or alternative dispute resolution proceedings to which we are currently a party will have a material adverse effect on the financial condition of our business as a whole.

The Company also recognizes that the COVID-19 coronavirus pandemic continues to create significant economic disruption and uncertainty. The impact on the financial performance of the Company will likely depend on variables such as the duration and severity of the outbreak, and its impact on the financial capacity of its reinsurers, clients and the obligors under the policies it issues. As of the date of these financial statements, the Company has identified no expected impairment or loss contingencies related to COVID-19. The ultimate financial impact of the pandemic upon the business of the Company cannot be accurately predicted at this time, but the Company will continue to monitor and assess the impact on a continuing basis.

(Expressed in United States Dollars)

2. Summary of significant accounting policies (continued)

(n) Recent accounting pronouncements

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes" which enhances and simplifies various aspects of the income tax accounting guidance in ASC 740. The amendments are effective for fiscal years beginning after December 15, 2021. This ASU is not expected to have a material impact on the Company's financial statements.

On February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*" which supersedes the leases requirements in Topic 840 and establishes the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The amendments of this ASU are effective for fiscal years beginning after December 15, 2021. This ASU is not expected to have a material impact on the Company's financial statements.

On June 16, 2016, the FASB issued ASU 2016-13, "*Financial Instruments - Credit Losses (Topic 326)*" which introduces a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new credit loss model, the Company would recognize an allowance for its estimate of expected credit losses and this would apply to most debt instruments (other than those measured at fair value), trade receivables, lease receivables, reinsurance receivables, financial guarantee contracts and loan commitments. Available-for-sale debt securities are outside the model's scope and this ASU made limited amendments to the impairment model for available-for-sale debt securities. There are other amendments required as a result of this ASU that are effective for fiscal years beginning after December 15, 2022. The ASU is not expected to have a material impact on the Company's financial statements.

On August 28, 2017, the FASB issued ASU 2017-12, "*Derivatives and Hedging (Topic 815)*" enabling entities to better align their hedge accounting and risk management activities, while also simplifying the application of hedge accounting in certain situations. This ASU is effective for fiscal years beginning after December 15, 2020 using a modified retrospective approach for cash flow and net investment hedge relationships that exist on the date of adoption. This ASU is not expected to have a material impact on the Company's financial statements.

On August 15, 2019, the FASB issued ASU 2018-12, "*Financial Services—Insurance (Topic 944)*" which makes targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. This ASU is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. This ASU is not expected to have a material impact on the Company's financial statements.

Other accounting pronouncements were issued during the year ended December 31, 2021 which were either not relevant to the Company or did not impact the Company's financial statements.

3. Net investment income

The components of net investment income for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Income on deposit accounted policies	$ 3,247,510	$ 3,555,479
Net interest income	6,320	120,901
Investment gain/loss	(22,926)	142,864
	$ 3,230,904	$ 3,819,244

(Expressed in United States Dollars)

4. Segregated accounts

As described in Note 1, in accordance with the Company's incorporation under the SAC Act, assets and liabilities of certain reinsurance programs are legally segregated. As of December 31, 2021 and 2020, the following assets and liabilities are segregated from the general assets and liabilities of the Company:

	2021	2020
Segregated assets		
Insurance balances receivable	$1,618,681,204	$1,415,531,856
Deferred reinsurance premiums	1,318,145,949	1,213,551,881
	$2,936,827,153	$2,629,083,737
Segregated liabilities		
Unearned premiums	$1,318,145,949	$1,213,551,881
Reinsurance balances payable	1,618,681,204	1,415,531,856
	$2,936,827,153	$2,629,083,737

For the year ended December 31, 2021, the segregated accounts recorded total gross premiums written and ceded of $ 335,983,755 (2020: $157,633,974). Net realized/unrealized gain for the segregated accounts was $5,573,229 (2020: $7,747,484) comprised of foreign exchange loss of $1,660,120 (2020: gain of $1,457,887) and derivative instruments gain of $7,233,348 (2020: $6,289,597).

5. Fair value

The Company had $6,214,824 (2020: $10,905,624) of cash equivalents measured as a level 1 assets and nil liabilities that were accounted for at fair value as of December 31, 2021 and December 31, 2020.

During the years ended December 31, 2021 and 2020, there were no transfers of assets or liabilities between Levels 1, 2, or 3.

For the years ended December 31, 2021 and 2020, there were no purchases or issues of financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3).

Financial instruments not carried at fair market value

Authoritative guidance over disclosures about the fair value of financial instruments requires additional disclosure of fair value information for financial instruments not carried at fair value in both interim and annual reporting periods. Certain financial instruments, particularly insurance contracts, are excluded from these fair value disclosure requirements. As of December 31, 2021 and 2020 the Company had no applicable financial instruments.

(Expressed in United States Dollars)

6. Deposit liabilities

The Company has entered into certain policies that transfer insufficient risk under U.S. GAAP to be accounted for as reinsurance transactions and thus are recorded under deposit accounting guidance. These agreements have been recorded as deposit liabilities which are initially recorded at an amount equal to the payments received. Each deposit liability accrues at a rate equal to the internal rate of return of the payment receipts and obligations due during the life of the agreement. Where the timing and/or amount of future payments are uncertain, cash flows reflecting the Company's actuarially determined best estimates are utilized.

As at December 31, 2021, total deposit assets and liabilities were $nil (2020: $nil). $3,247,510 (2020: $3,555,479) was recorded in the statements of income and comprehensive income as "net investment income" related to the income on deposit accounted for policies for the year ended December 31, 2021.

7. Financial guarantee

The net earned premiums for the policies accounted for under the financial guarantee accounting guidance for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Net earned premiums	$ 6,648,203	$ 4,903,428
Accretion of discount on premiums receivable	1,633,047	1,433,588
	$ 8,281,250	$ 6,337,016

The schedule of future premium earning is as follows:

	As of December 31, 2021
2022 (January 1 – March 31)	$ 2,384,218
2022 (April 1 – June 30)	2,384,218
2022 (July 1 – September 30)	2,384,218
2022 (October 1 – December 31)	2,384,219
Subtotal 2022	9,536,873
2023	9,724,750
2024	9,020,501
2025	7,490,713
2026	5,400,395
2027-2031	5,132,171
After 2031	40,464,857
Net unearned premium reserve	86,770,260
Future accretion of discount	4,889,735
	$ 91,659,995

7. Financial guarantee (continued)

	As of December 31, 2020
2021 (January 1 – March 31)	$ 2,566,149
2021 (April 1 – June 30)	2,566,149
2021 (July 1 – September 30)	2,566,149
2021 (October 1 – December 31)	2,566,149
Subtotal 2021	10,264,596
2022	9,466,530
2023	7,893,371
2024	5,954,750
2025	3,986,052
2026-2030	3,290,550
After 2030	–
Net unearned premium reserve	40,855,849
Future accretion of discount	4,875,822
	$ 45,731,671

The premium receivable roll forward for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Balance, beginning of year	$ 47,980,876	$ 43,876,237
Gross written premiums	53,814,536	3,695,697
Gross premiums received	(3,337,199)	(1,468,553)
Accretion of discount	1,633,047	1,433,588
Foreign exchange translation	(1,650,049)	443,907
Balance, end of year	$ 98,441,211	$ 47,980,876

Foreign exchange translation relates to premiums receivable denominated in Euro. Approximately 42% and 40% of premiums receivable at December 31, 2021 and 2020, respectively, are denominated in Euro.

The timing and cumulative amount of actual collections may differ from expected collections in the tables below due to factors such as foreign exchange rate fluctuations, accelerations and changes in expected return.

(Expressed in United States Dollars)

7. Financial guarantee (continued)

The expected collections of the financial guarantee insurance premiums receivable as of December, 31, 2021 is as follows:

	As of December 31, 2021
2021	$ –
2022 (January 1 – March 31)	918,238
2022 (April 1 – June 30)	918,238
2022 (July 1 – September 30)	918,238
2022 (October 1 – December 31)	918,240
Subtotal 2022	3,672,954
2023	4,672,742
2024	5,895,472
2025	7,134,520
2026	8,297,683
2027-2031	27,885,404
After 2031	40,882,436
	$ 98,441,211

	As of December 31, 2020
2021 (January 1 – March 31)	$ 845,758
2021 (April 1 – June 30)	846,007
2021 (July 1 – September 30)	846,007
2021 (October 1 – December 31)	846,007
Subtotal 2021	3,383,779
2022	3,915,142
2023	4,773,146
2024	6,498,467
2025	7,686,285
2026-2030	21,273,377
After 2030	450,680
	$ 47,980,876

(Expressed in United States Dollars)

7. Financial guarantee (continued)

	2021	2020
Premiums receivable	$ 98,441,211	$ 47,980,876
Unearned premium reserve	86,770,260	40,855,849
Weighted average risk free rate used to discount premiums	0.8%	1.0%
Weighted average period of premiums receivable (in years)	5.4	5.2

8. Reserve for losses and loss adjustment expenses

The Company uses statistical and actuarial methods to reasonably estimate ultimate expected losses and loss expenses. The period of time from the occurrence of a loss, the reporting of the loss to the Company, and the settlement of the Company's liability may be several years. During this period, additional facts and trends will be revealed. As these factors become apparent, case reserves will be adjusted, sometimes requiring an increase in the overall reserves of the Company, and at other times requiring a reallocation of incurred but not reported reserves to specific case reserves. These estimates are reviewed regularly, and such adjustments, if any, are recorded in earnings in the period in which they become known. While management believes it has made a reasonable estimate of ultimate losses, the ultimate claims experience may not be as reliably predicted as may be the case with other insurance and reinsurance operations, and there can be no assurance that losses and loss expenses will not exceed the total reserves.

The Company has recorded loss expense reserves of $3,666,784 for the year ended December 31, 2021 (2020: $409,032).

The Company amortized $ 153,093 acquisition costs in the years ended December 31, 2021 (2020: nil).

9. Reinsurance

The following table details the reinsurance and retrocessional activity on premiums written and earned by the Company's General Account for the years ended December 31, 2021 and 2020:

	2021	2020
Gross		
Premiums written direct	$ 58,981,019	$ 5,186,782
Premiums earned	9,089,086	5,751,982
Net		
Premiums written direct	$ 56,937,777	$ 5,186,782
Premiums earned	8,820,029	5,751,982

The Company had $3,666,784 of loss expense reserves for year ended December 31, 2021 (2020: $409,032).

The Company evaluates the financial condition of its reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers (refer to Note 12). There was no allowance for doubtful recoveries recorded as at December 31, 2021 or 2020. The reinsurance transactions are reflected within the segregated accounts.

(Expressed in United States Dollars)

10. Other insurance income

Other insurance income for the years ended December 31, 2021 and 2020 is comprised of the following:

	2021	2020
Commission income	$ 35,023,983	$ 35,294,715
Accretion of premium discount	1,633,047	1,433,588
Federal Excise Tax	(54,998)	(68,096)
	$ 36,602,032	$ 36,660,207

11. Taxation

(a) Bermuda

Under the current Bermuda law the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted until March 31, 2035.

(b) United States

The Company has made an irrevocable election under Section 953(d) of the United States Internal Revenue Code of 1986, as amended, to be taxed as a U.S. domestic insurance company for U.S. federal income tax purposes. As a result of this ‘domestic election’, the Company is subject to U.S. federal taxation on its world-wide income as if it were a U.S. corporation.

The Company is part of a consolidated corporation tax group with Awbury Group LLC and its subsidiaries. Awbury Corporation and the Company are both fully owned subsidiaries of Awbury Group LLC. For the years ended December 31, 2021 and 2020, Awbury Corporation recognized a taxable loss that the Company was able to offset against its taxable gain. The Company has recognized a payable to Awbury Corporation for the value of the benefit received (see Note 13).

The income tax expense for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Current year tax expense	$ 7,151,471	$ 5,097,594
Deferred tax (benefit)/expense	(2,372,195)	114,165
	$ 4,779,276	$ 5,211,759

(Expressed in United States Dollars)

11. Taxation (continued)

The deferred tax asset balances as of December 31, 2021 and 2020, are made up of the following:

	2021	2020
Deferred tax assets:		
Unearned premium	$ 3,804,646	$ 1,783,701
Unrealized foreign currency exchange loss	516,399	169,544
Unrealized investment loss	13,757	8,942
Total deferred tax assets	4,334,802	1,962,187
Deferred tax liabilities:		
Start-up costs	(3,780)	(3,360)
Unrealized investment gain	(30,001)	(30,001)
Unrealized foreign exchange gain	(314,407)	(314,407)
Total deferred tax liabilities	(348,188)	(347,768)
Net deferred tax assets	$ 3,986,614	$ 1,614,419

The effect of a change in tax laws or rates on deferred taxes assets and liabilities is recognized in income in the period in which such change is enacted.

12. Commitments and contingencies

(a) Concentration of credit risks

Credit risk arises out of the failure of a counter-party to perform according to the terms of the contract. The Company minimizes its credit risk in connection with its insurance business by utilizing a segregated account structure.

One of the conditions of the Company's license is that it shall not cede any business other than to a reinsurer with an A.M. Best, or similar agency, rating of A- or better. All of the commission receivable due to the Company as of December 31, 2021 and 2020 is from reinsurers with a credit rating of A- or better.

The Company holds its cash and cash equivalents at institutions with an S&P credit rating of A-.

(b) Operating leases

The Company leases office space under an operating lease. Operating lease expense was $41,155 and $33,050, for the years ended December 31, 2021 and 2020, respectively. Future minimum lease payments under the lease are expected to be as follows:

Year ending December 31,	
2022	$ 45,607
2023	–
2024	–
Thereafter	–

(Expressed in United States Dollars)

13. Related party transactions

The membership interests of Awbury Group LLC are held by individuals (the "Members"). The Members also hold 100% of the membership interests in Awbury Technical Solutions LLC (a Connecticut limited liability company), Awbury Insurance Holdings LLC (a Delaware limited liability company), Awbury Brokerage Services LLC (a Connecticut limited liability company), Awbury UK Holdings LLC (a Delaware limited liability company) and Awbury Asia Holdings LLC (a Delaware limited liability company).

The Company is party to a service agreement (the "service agreement') with Awbury Technical Solutions LLC ("ATS"). Pursuant to the Service Agreement, ATS provides certain product management, technical underwriting, reinsurance, strategic and operating management, legal, compliance, valuation, finance, human resources, tax, audit services, communications, administrative services, information technology and records services to the Company. Compensation for the services provided to the Company is paid based upon a percentage of ATS's annual expenses attributable to providing the services to the Company.

Amounts due to affiliates are in respect of amounts payable to ATS and Awbury Corporation. The balances with ATS arise as a result of the Company's operating activities. There are no fixed repayment terms and all amounts are due on demand. The balances owed to Awbury Corporation relate to the Company's utilization of the group tax loss recorded by Awbury Corporation. The net intercompany payable balances as at December 31, 2021 and 2020 are as follows:

	2021	2020
Amounts owed to:		
Awbury Corporation	$ 16,916,601	$ 11,819,006
	$ 16,916,601	$ 11,819,006

The Company, through its segregated accounts, has issued insurance policies to entities whose equity interests are also held by Awbury Group LLC. Certain directors of the Company are also directors of these entities.

The following amounts included in the statements of income and comprehensive income and balance sheets relate to the transactions with related parties, specifically insurance policies to affiliate entities and service fees paid to ATS.

	2021	2020
Assets and liabilities		
Premiums receivable	$ 98,441,211	$ 47,980,876
Unearned premium reserve	(86,770,260)	(40,855,849)
Deferred commission	(238,668,312)	(215,363,369)
Commission receivable	293,428,077	252,538,175

	2021	2020
Net income		
Net premiums written	$ 53,814,536	$ 3,695,697
Net premiums earned	6,648,203	4,903,428
Commission income	27,890,401	26,022,092
Accreted discount	1,633,047	1,433,588
ATS service fees	(26,000,000)	(27,500,000)
Directors' fees	(167,500)	(168,530)

(Expressed in United States Dollars)

14. Derivative instruments

The Company entered into certain insurance policies that were categorized as derivative instruments within guidance of U.S. GAAP. The Company has recognized these contracts as either assets or liabilities in the balance sheets and measured these instruments at fair value with the changes in fair value of derivatives shown in the statements of income and comprehensive income as 'net realized and unrealized gain on derivative instruments'.

The follow table summarizes information on the location and gross amounts of derivative fair values contained in the balance sheet as of December 31, 2021 and 2020:

December 31, 2021	Derivative assets			Derivative liabilities		
	Balance sheet location	Notional amount	Fair value	Balance sheet location	Notional amount	Fair value
Derivatives not designated as hedging instruments:						
Non-investment derivatives: Insurance policies	Derivative assets	$ 477,575,758	$ –	Derivative liabilities	–	–
		$ 477,575,758	$ –		$ –	$ –

December 31, 2020	Derivative assets			Derivative liabilities		
	Balance sheet location	Notional amount	Fair value	Balance sheet location	Notional amount	Fair value
Derivatives not designated as hedging instruments:						
Non-investment derivatives: Insurance policies	Derivative assets	$ 477,575,758	$ –	Derivative liabilities	–	–
		$ 477,575,758	$ –		$ –	$ –

The following table provides the total impact on earnings relating to derivative instruments not formally designed as hedging instruments under U.S. GAAP. The impacts are all recorded through 'net realized and unrealized gain on derivative instruments' in the statements of income and comprehensive income for the years ended December 31, 2021 and 2020:

	2021	2020
Derivatives not designated as hedging instruments:		
Non-investment derivatives: Insurance policies	$ 7,233,348	$ 6,289,597
	$ 7,233,348	$ 6,289,597

The Company has designated none of its derivative instruments as fair value hedges or cash flow hedges and holds no derivative instruments within its investment portfolio.

15. Share capital

The Company was incorporated with an authorized share capital of $120,000 divided into 120,000 shares with a par value of $1.00 each. These shares were issued on incorporation at par value and were fully paid on issue.

The holders of Shares are entitled to dividends as declared by the Board of Directors. However, as determined by conditions imposed on the Company's registration by the Bermuda Monetary Authority, the Company is restricted from declaring or paying a dividend to its shareholder in excess of 50% of the Company's retained earnings in excess of its target level of capital.

Additional paid in capital as of December 31, 2021 is $1,127,400 (2020: $1,127,400) and consists of a cash injection into the Company by its shareholder.

There were no changes in share capital or additional paid in capital for the years ended December 31, 2021 and 2020.

(Expressed in United States Dollars)

16. Statutory requirements

The statutory net income for the Company for the years ended December 31, 2021 and 2020 was $17,393,913 and $19,643,357, respectively. Under the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 of Bermuda (the "Insurance Act"), the Company is required to prepare 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 measures of solvency (the "Minimum Solvency Margin") and liquidity (the "Liquidity Ratio"). The Company is in compliance with the Minimum Solvency Margin and Liquidity Ratio at December 31, 2021 and 2020. The relevant assets for liquidity purposes comprise cash, premium receivables and commission receivables.

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. While not specifically referred to in the Insurance Act, 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. The Company's capital and surplus levels exceeded the TCL at December 31, 2021 and 2020.

The Company has also complied with all conditions on its Certificate of Registration. These include maintaining relevant ratios applicable under Bermuda law, not writing any "long term business" without approval of the Bermuda Monetary Authority, not ceding any business other than to reinsurers with an A.M. Best (or similar agency) rating of A- or better, retaining no more than 15% of business assumed by the General Account and not declaring or paying a dividend in excess of 50% of the Company's retained earnings in excess of the target level of capital.

Actual total statutory capital and surplus, as determined using statutory accounting principles, is as follows:

	2021	2020
Total shareholder's equity	$ 64,678,644	$ 49,699,471
Segregated account shareholders' equity	–	–
Less non-admitted assets:		
Deferred acquisition costs	594,045	
Prepaid expenses	59,999	68,784
Statutory capital and surplus	$ 64,024,600	$ 49,630,687

17. Subsequent events

The Company has evaluated subsequent events through to April 18, 2022 the date these financial statements were available to be issued.

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