CICA Life Ltd.

Financial Statements as of and for the Years Ended December 31, 2020 and 2019, and Independent Auditors' Report

CICA Life Ltd.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
CICA Life Ltd.
Pembroke, Bermuda

We have audited the accompanying financial statements of CICA Life Ltd. (the "Company") (a wholly-owned subsidiary of Citizens, Inc.), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations and comprehensive income, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CICA Life Ltd. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the accompanying financial statements were prepared from the separate records maintained by CICA Life Ltd. and may not necessarily be indicative of the conditions that would have existed or the results of operations had the Company been operated as a stand-alone entity for the years presented. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

April 23, 2021

CICA Life Ltd.
Balance Sheets
As of December 31, 2020 and 2019

(In USD thousands)		2020	2019
Assets			
Investments:			
Fixed maturities available-for-sale, at fair value (amortized cost: $870,483 and $838,739 in 2020 and 2019, respectively)	$	**975,695**	889,061
Equity securities, at fair value		**5,872**	—
Other long-term investments (portion measured at fair value $11,923 in 2020)		**18,135**	—
Policy loans		**72,444**	71,017
Total investments		**1,072,146**	960,078
Cash and cash equivalents		**18,528**	18,846
Accrued investment income		**10,271**	11,152
Reinsurance recoverable		**1,973**	2,759
Deferred policy acquisition costs		**100,475**	108,479
Due premiums		**10,422**	11,545
Other assets (less allowance for losses of $143 in 2020)		**3,867**	3,824
Total assets	**$**	**1,217,682**	1,116,683
Liabilities and Stockholder's Equity			
Liabilities:			
Policy liabilities:			
Future policy benefit reserves:			
Life insurance	$	**931,127**	906,874
Annuities		**21,337**	19,536
Dividend accumulations		**24,161**	20,471
Premiums paid in advance		**39,872**	42,339
Policy claims payable		**1,823**	2,002
Other policyholders' funds		**19,706**	15,635
Total policy liabilities		**1,038,026**	1,006,857
Commissions payable		**1,558**	1,620
Other liabilities		**19,651**	13,884
Total liabilities		**1,059,235**	1,022,361
Commitments and contingencies (Note 8)			
Stockholder's Equity:			
Common stock		**250**	250
Additional paid-in capital		**30,497**	30,497
Retained earnings		**22,155**	13,253
Accumulated other comprehensive income		**105,545**	50,322
Total stockholder's equity		**158,447**	94,322
Total liabilities and stockholder's equity	**$**	**1,217,682**	1,116,683

See accompanying notes to the financial statements.

CICA Life Ltd.
Statements of Operations and Comprehensive Income
For the Years Ended December 31, 2020 and 2019

(In USD thousands)		**2020**	2019
Revenues			
Life insurance premiums	$	**125,409**	132,908
Net investment income		**40,365**	39,016
Realized investment gains, net		**1,435**	656
Other income		**1,676**	1,247
Total revenues		**168,885**	173,827
Benefits and expenses			
Insurance benefits paid or provided:			
Claims and surrenders		**78,043**	65,762
Increase in future policy benefit reserves		**24,878**	38,345
Policyholders' dividends		**16,673**	18,143
Total insurance benefits paid or provided		**119,594**	122,250
Commissions		**17,465**	19,360
Other general expenses		**14,822**	18,334
Capitalization of deferred policy acquisition costs		**(15,497)**	(17,361)
Amortization of deferred policy acquisition costs		**23,501**	23,595
Total benefits and expenses		**159,885**	166,178
Net income		**9,000**	7,649
Other comprehensive income (loss):			
Unrealized gains (losses) on fixed maturities available-for-sale:			
Unrealized holding gains arising during the year		**55,090**	53,046
Reclassification adjustment for (gains) losses included in net income		**133**	(656)
Unrealized gains on fixed maturities available-for-sale, net		**55,223**	52,390
Other comprehensive income		**55,223**	52,390
Total comprehensive income	$	**64,223**	60,039

See accompanying notes to the financial statements.

CICA Life Ltd.
Statements of Stockholder's Equity
For the Years Ended December 31, 2020 and 2019

(In USD thousands)		Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2018	$	250	30,497	5,604	(2,068)	34,283
Net income		—	—	7,649	—	7,649
Unrealized gains on fixed maturities available-for-sale, net		—	—	—	52,390	52,390
Balance, December 31, 2019		250	30,497	13,253	50,322	94,322
Accounting standard adopted January 1, 2020[(1)]		**—**	**—**	**(98)**	**—**	**(98)**
Net income		**—**	**—**	**9,000**	**—**	**9,000**
Unrealized gains on fixed maturities available-for-sale, net		**—**	**—**	**—**	**55,223**	**55,223**
Balance, December 31, 2020	**$**	**250**	**30,497**	**22,155**	**105,545**	**158,447**

(1) See Note 2 in the Notes to Financial Statements for more detail

See accompanying notes to the financial statements.

CICA Life Ltd.
Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019

(In USD thousands)	2020	2019
Cash flows from operating activities:		
Net income	$ **9,000**	7,649
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment gains (losses), net	**(1,435)**	(656)
Net deferred policy acquisition costs	**8,004**	6,234
Depreciation	**2**	2
Amortization of premiums and discounts on investments	**5,311**	8,326
Change in:		
Accrued investment income	**881**	249
Reinsurance recoverable	**786**	(170)
Due premiums	**1,123**	882
Other assets	**(188)**	(628)
Future policy benefit reserves	**24,729**	31,029
Other policyholders' liabilities	**5,115**	11,501
Commissions payable and other liabilities	**5,705**	949
Net cash provided by operating activities	**59,033**	65,367
Cash flows from investing activities:		
Sales of fixed maturities available-for-sale	**7,497**	42,424
Maturities and calls of fixed maturities available-for-sale	**153,326**	90,502
Purchases of fixed maturities available-for-sale	**(198,020)**	(197,220)
Purchases of equity securities	**(4,260)**	—
Sale of other long-term investments	**3,671**	—
Purchases of other long-term investments	**(21,463)**	—
Increase in policy loans, net	**(1,427)**	(1,034)
Net cash used in investing activities	**(60,676)**	(65,328)
Cash flows from financing activities:		
Annuity deposits	**4,416**	3,738
Annuity withdrawals	**(3,091)**	(3,333)
Net cash provided by financing activities	**1,325**	405
Net increase (decrease) in cash and cash equivalents	**(318)**	444
Cash and cash equivalents, beginning of year	**18,846**	18,402
Cash and cash equivalents, end of year	$ **18,528**	18,846

See accompanying notes to the financial statements.

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

During 2020 and 2019, various fixed maturity issuers exchanged securities with book values of $7.1 million and $10.9 million, respectively, for securities of equal value.

The Company also had $4.5 million of unsettled securities trades as of December 31, 2020 and none as of December 31, 2019.

See accompanying notes to the financial statements.

(Concluded)

1. Organization and Corporate Structure

CICA Life Ltd. (the "Company" or "CICA Ltd.") was incorporated as a Bermuda exempted company with limited liability on May 22, 2017 and registered as a Class E insurer under The Insurance Act 1978 of Bermuda, effective February 27, 2018. The Company is a wholly-owned subsidiary of Citizens, Inc. ("Citizens"), a Colorado corporation.

On July 1, 2018, Citizens effected a novation ("novation transaction") of all the international policies issued by CICA Life Insurance Company of America ("CICA"), a Colorado domiciled entity and wholly-owned subsidiary of Citizens, to CICA Ltd. The Company began operations in Bermuda on July 1, 2018.

The Company sells ordinary whole-life and endowment insurance products primarily to residents of Latin America and the Pacific Rim through independent marketing firms and consultants with premium income derived primarily from life insurance products.

2. Significant Accounting Policies

a. *Basis of preparation*

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP").

All amounts are expressed in U.S. dollars ("USD").

b. *Use of estimates*

The preparation of financial statements in conformity with U.S. GAAP requires 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 period. Actual results could differ materially from these estimates.

Significant estimates include those used in the evaluation of credit losses on fixed maturity securities, actuarially determined assets and liabilities and assumptions, and contingencies relating to litigation and regulatory matters. Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the worldwide debt or equity markets could have a material impact on the financial statements.

c. *Allocations*

Statement of Operations and Comprehensive Income:

The Company operates through a Services Agreement with Citizens, in which Citizens provides support to the Company for new application underwriting, claims management, policyowner service, support services for independent marketing consultants, actuarial assistance, policy accounting, commission accounting, investment accounting, general accounting and routine data processing ("Standard Services"). The expenses for the Standard Services are allocated to the Company based upon an annual cost study conducted by Citizens. The Company's financial statements may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company. For additional information, see Note 11, *Related Party Transactions.*

d. *Investments*

Investment securities are classified as held-to-maturity, available-for-sale ("AFS") or trading. Management determines the appropriate classification at the time of purchase. The classification of securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Fixed maturity securities are classified as AFS, which are carried at fair value, with the unrealized holding gains and losses, reported in other comprehensive income and are not reported in earnings until realized. Equity securities are measured at fair value with the change in fair value recorded through net income.

Unrealized gains (losses) of fixed maturities held as AFS are shown as a separate component of stockholders' equity and is a separate component of comprehensive income.

Beginning January 1, 2020, in connection with the adoption of a new accounting standard, the Company assesses AFS fixed maturity securities in an unrealized loss position for expected credit losses. First, we assess whether we intend to sell, or it is more likely than not that we will be required to sell, the security before recovery of its amortized cost. If either of the criteria is met, the security's amortized cost is written down to its fair value. For AFS fixed maturity securities that do not meet either criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If management deems a credit loss has occurred, the impairment is recorded through an allowance for credit losses rather than as a write-down. Changes in the allowance for credit losses are recorded through realized investment gains and losses. Any impairment that has not been recorded through an allowance for credit losses is recognized in accumulated other comprehensive income on our balance sheets. Prior to 2020, the Company evaluated all fixed maturity securities on a quarterly basis, and more frequently when economic conditions warranted additional evaluations, to determine if a write-down should be recorded due to an other-than-temporary impairment ("OTTI"). If an OTTI was required, the write-down was recorded directly to operations and any subsequent recoveries were recorded through net investment income over the remaining life of the security.

The Company made a policy election to exclude accrued interest from the amortized cost of AFS fixed maturity securities and report accrued interest separately in accrued investment income on the balance sheets. AFS fixed maturity securities are placed on non-accrual status when we no longer expect to receive all contractual amounts due. Accrued interest receivable is reversed against interest income when a security is placed on non-accrual status. Accordingly, we do not recognize an allowance for credit loss against accrued interest receivable.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

The Company from time to time may dispose of an impaired security in response to asset/liability management decisions, future market movements, business plan changes, or if the net proceeds can be reinvested at a rate of return that is expected to recover the loss within a reasonable period of time.

Policy loans are reported at unpaid principal balances.

Other long-term investments at December 31, 2020, consisted primarily of investments in private equity funds. We initially estimate the fair value of investments in private equity funds by reference to the transaction price. Subsequently, we obtain the fair value of these investments from net asset value information provided by the general partner or manager of the investments, the financial statements of which are audited annually. Recognition of investment income on these funds is delayed due to the availability of the related financial statements, which are generally obtained from the partnerships' general partners. As a result, our private equity funds are generally reported on a three-month delay.

e. *Cash and Cash equivalents*
Cash consists of balances on hand and on deposit in banks and financial institutions. Cash equivalents consists of securities whose duration does not exceed 90 days at the date of acquisition.

f. *Reinsurance recoverable*
Reinsurance recoverable includes expected reimbursements for policyholder claim amounts in excess of the Company's retention, as well as profit sharing and experience refund accruals. Reinsurance recoverable are reduced for estimated uncollectible amounts, if any.

Reinsurance premiums, benefits and expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. The cost of reinsurance related to long duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies. Profit-sharing and similar adjustable provisions are accrued based on the experience of the underlying policies.

g. *Deferred policy acquisition costs*
Acquisition costs consist of commissions and policy issuance, underwriting and agent convention expenses that are directly related to and vary with the successful production of new business are deferred. These deferred amounts, referred to as deferred policy acquisition costs ("DAC"), are recorded as an asset on the balance sheets and amortized to operations in a systematic manner, based on related contract revenues or gross profits as appropriate.

Traditional life insurance acquisition costs are being amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities. If an internal replacement of insurance or investment contract modification substantially changes a contract as defined in current accounting guidance, then the DAC is written off immediately through income and any new deferrable costs associated with the new replacement or modification are deferred. If a contract modification does not substantially change the contract, the DAC amortization on the original contract will continue and any acquisition costs associated with the related modification are immediately expensed.

The ending DAC asset balance is calculated at a seriatim level for policies in force at the end of each reporting period based on the remaining unamortized asset. The assumptions used to calculate DAC are set when a policy is issued and do not change with changes in actual experience, unless a loss recognition event occurs. The seriatim method ensures that policies lapsed or surrendered during the reporting period are no longer included in the DAC calculation. This method limits the amount of deferred costs to its estimated realizable value, provided actual experience is comparable to that contemplated in the locked-in assumptions.

Inherent in the capitalization and amortization of DAC are certain management judgments about what acquisition costs are deferred, the ending asset balance and the annual amortization. Approximately 95.3% of our DAC is attributed to first year and renewal excess commissions. The remaining 4.7% is attributed to costs that vary with and are directly related to the successful acquisition of new insurance business. Those costs generally include costs related to the production, underwriting and issuance of new business.

DAC is subject to recoverability testing at the time of policy issuance and loss recognition testing on an annual basis, or when an event occurs that might require loss recognition testing. If loss recognition or impairment is necessary, DAC would be written off to the extent that anticipated future premiums and investment income is insufficient to cover expected future policy benefits and expenses. Loss recognition testing that considers, among other things, actual experience and projected future experience calculates the available premium (gross premium less the benefit and expense portion of premium) for the next 50 years. DAC is evaluated for recoverability using best estimate assumptions. Based on the results of DAC recoverability testing and loss recognition testing, management believes that our DAC as of the years ended December 31, 2020 and 2019 limits the amount of deferred costs to its estimated recoverable value.

The components of DAC from year to year are summarized as follows:

(In USD thousands)		2020	2019
Balance at beginning of year	$	**108,479**	114,713
Capitalized		**15,497**	17,361
Amortized		**(23,501)**	(23,595)
Balance at end of year	$	**100,475**	108,479

h. Future policy benefits and expenses

Future policy benefit reserves for traditional life insurance are established based on methods and underlying assumptions in accordance with U.S. GAAP and applicable actuarial standards. Assumptions as to investment yields, expenses, mortality and lapses are based upon our experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviations.

The accrued account balance for non-traditional life insurance and investment contracts is computed as deposits net of withdrawals made by the contract holder, plus amounts credited based on contract specifications, less contract fees and charges assessed, plus any additional interest. Annuity interest crediting rates range from 2.5% to 5.5% annually. Benefits and expenses are charged against the account balance to recognize costs as incurred over the estimated lives of the contracts. Expenses include interest credited to contract account balances and benefits paid in excess of contract account balances.

The development of liabilities for future policy benefits requires management to make estimates and assumptions regarding mortality, persistency, expense, and investment experience based primarily on historical experience and future expectations of those assumptions. Actual results could differ materially from estimates. An additional provision is made on most products to allow for possible adverse deviation from the assumptions assumed. We monitor actual experience and revise assumptions as necessary.

i. Participating policies

Participating business was approximately 91.5% and 91.4% of direct life insurance in force in 2020 and 2019, respectively.

Future policy benefits on participating policies are estimated based on net level premium reserves for death and endowment policy benefits with interest rates ranging from 3.2% to 9.0%, and the cash surrender values described in such contracts. The scaling rate used for the 2020 portfolio ranged between 3.25% for 1 year and going up to 4.36% over 20 years and remaining there for the duration. Earnings and dividends on participating policies are allocated based on policies in force.

Policyholder dividends are determined based on the discretion of the Board of Directors of the Company. Policyholder dividends are accrued over the premium paying periods of the insurance contract.

j. *Contingencies*
An estimated loss from a contingency is accrued and charged to results of operations only if both of the following conditions are met:

1. Information available prior to the issuance of the financial statements indicates that it is probable (virtual certainty is not required) that an asset has been impaired, or a liability incurred as of the date of the financial statements; and
2. The amount of the loss can be reasonably estimated.

Reasonable estimation of a possible loss does not require estimating a single amount of the loss. It requires that a loss be accrued if it can be estimated within a range. If an amount within the range is a better estimate than any other amount within the range, that amount is accrued. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued.

A gain contingency is an uncertain situation that will be resolved in the future, possibly resulting in a gain. We do not allow the recognition of a gain contingency prior to settlement of the underlying event. If we were to have a material gain contingency, we would disclose it in the notes to the financial statements.

k. *Premium revenue and related expenses*
Premiums on life policies are recognized as earned when due. Premiums paid in advance on the balance sheets are held on deposit and accrue interest at rates ranging from 2.50% to 5.00% until such time as the premiums become due. Benefits and expenses are associated with earned premiums so as to result in the recognition of profits over the estimated lives of the contracts. This matching is accomplished by means of a provision for future policy benefits and the capitalization and amortization of deferred policy acquisition costs.

Annuity policies, primarily flexible premium fixed annuity products, are accounted for in a manner consistent with accounting for interest bearing financial instruments. Premium receipts are not reported as revenue, rather as deposit liabilities to annuity contracts. The annuity products issued do not include fees or other such charges.

l. *Income taxes*
At present, no taxes are levied in Bermuda on the Company's receipts, dividends, capital gains, gifts or net profit. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 31, 2035.

CICA Ltd. is considered a controlled foreign corporation for United States federal tax purposes. As a result, the income of the Company is currently taxable to Citizens under the Subpart F of the Internal Revenue Code. The income tax amount of zero in these financial statements has been calculated based on a separate return methodology and presented as if each company was a separate taxpayer in its respective jurisdiction.

m. *Accounting pronouncements*

Accounting standards recently adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, with the main objective to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The ASU requires a financial asset (or a group of financial assets) measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the increases or decreases of expected credit losses that have taken place during the period. Credit losses on AFS fixed maturity securities should be measured in a manner similar to current U.S. GAAP; however, the credit losses are recorded through an allowance for credit losses rather than as a write-down. This approach is an improvement to prior U.S. GAAP because an entity will be able to record reversals of credit losses (in situations in which the estimate of credit losses declines) in current period net income, which in turn should align the income statement recognition of credit losses with the reporting period in which changes occur. Prior U.S. GAAP prohibited reflecting those improvements in current-period earnings. The Company adopted this standard effective January 1, 2020 using the modified retrospective approach. The adoption resulted in an increase in accumulated deficit of $0.1 million related to agents' debit balance collectability.

In September 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This ASU requires an entity in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal-use software guidance in Accounting Standards Codification 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. Capitalized implementation costs should be presented in the same line item on the balance sheet as amounts prepaid for the hosted service, if any (generally as an "other asset"). The capitalized costs will be amortized over the term of the hosting arrangement, with the amortization expense being presented in the same income statement line item as the fees paid for the hosted service. We adopted this standard effective January 1, 2020. The adoption had no impact on our financial statements.

Accounting standards not yet adopted

In August 2018, the FASB issued ASU 2018-12, *Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. This ASU amends four key areas of the accounting and impacts disclosures for long-duration insurance and investment contracts:

- *Requires updated assumptions for liability measurement.* Assumptions used to measure the liability for traditional insurance contracts, which are typically determined at contract inception, will now be reviewed at least annually, and, if there is a change, updated, with the effect recorded in net income;

- *Standardizes the liability discount rate.* The liability discount rate will be a market-observable discount rate (upper-medium grade fixed-income instrument yield), with the effect of rate changes recorded in other comprehensive income;

- *Provides greater consistency in measurement of market risk benefits.* The two previous measurement models have been reduced to one measurement model (fair value), resulting in greater uniformity across similar market-based benefits and better alignment with the fair value measurement of derivatives used to hedge capital market risk;

- *Simplifies amortization of DAC.* Previous earnings-based amortization methods have been replaced with a more level amortization basis; and

- *Requires enhanced disclosures.* The new disclosures include rollforwards and information about significant assumptions and the effects of changes in those assumptions.

For public entities, this ASU will be effective on January 1, 2023, however, early application is permitted. For all other entities, this ASU is effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. The Company is evaluating the impact of this new guidance, and it is expected to have a material impact on our financial statements.

No other new accounting pronouncement issued or effective during the year had, or is expected to have, a material impact on our financial statements.

3. Investments

The Company invests primarily in fixed maturity securities, which totaled 89.5% of total cash, cash equivalents and investments at December 31, 2020.

(In USD thousands, except for %)	Carrying Value as of December 31,			
	2020	**%**	**2019**	**%**
Cash and invested assets:				
Fixed maturities available-for-sale	**$ 975,695**	**89.5 %**	$ 889,061	90.8 %
Equity securities	**5,872**	**0.5 %**	—	— %
Other long-term investments	**18,135**	**1.7 %**	—	— %
Policy loans	**72,444**	**6.6 %**	71,017	7.3 %
Cash and cash equivalents	**18,528**	**1.7 %**	18,846	1.9 %
Total cash and invested assets	**$ 1,090,674**	**100.0 %**	$ 978,924	100.0 %

Credit ratings reported for the periods indicated are assigned by a Nationally Recognized Statistical Rating Organization ("NRSRO") such as Standard & Poor's, Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"). The Company uses the Standard and Poor's rating, unless not rated by that NRSRO and then either the Moody's or Fitch rating is used. A credit rating assigned by a NRSRO is a quality-based rating, with AAA representing the highest quality and D the lowest, with BBB and above being considered investment grade. The following table shows the distribution of the credit ratings of our portfolio of AFS fixed maturity securities:

(In USD thousands, except for %)	December 31, 2020		
	Amortized Cost	**Fair Value**	**% of Total Fair Value**
AFS fixed maturity securities:			
AAA	**$ 10,240**	**10,614**	**1.1 %**
AA	**265,264**	**294,786**	**30.2 %**
A	**257,469**	**291,787**	**29.9 %**
BBB	**321,538**	**362,725**	**37.2 %**
	854,511	**959,912**	**98.4 %**
BB or below	**13,186**	**12,898**	**1.3 %**
Not Rated	**2,786**	**2,885**	**0.4 %**
	15,972	**15,783**	**1.7 %**
Total AFS fixed maturity securities	**$ 870,483**	**975,695**	**100.1 %**

	December 31, 2019		
(In USD thousands, except for %)	**Amortized Cost**	**Fair Value**	**% of Total Fair Value**
AFS fixed maturity securities:			
AAA	$ 23,889	24,452	2.7 %
AA	319,645	336,590	37.9 %
A	226,195	243,300	27.4 %
BBB	258,614	274,179	30.8 %
	828,343	878,521	98.8 %
BB or below	4,645	4,677	0.5 %
Not Rated	5,751	5,863	0.7 %
	10,396	10,540	1.2 %
AFS fixed maturity securities:	$ 838,739	889,061	100.0 %

The amortized cost, gross unrealized gains and losses and fair value of investments in AFS fixed maturity securities are as follows:

	December 31, 2020			
(In USD thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
AFS fixed maturity securities:				
U.S. Treasury securities	**$ 571**	**72**	**—**	**643**
States and political subdivisions	**242,702**	**21,628**	**(330)**	**264,000**
Corporate				
Financial	**140,430**	**21,017**	**(14)**	**161,433**
Consumer	**123,973**	**14,407**	**(244)**	**138,136**
Energy	**59,423**	**5,830**	**(459)**	**64,794**
All Other	**191,002**	**27,203**	**(42)**	**218,163**
Residential mortgage-backed	**84,572**	**15,953**	**—**	**100,525**
Other loan-backed and structured securities	**27,708**	**259**	**(84)**	**27,883**
Other foreign governments	**102**	**16**	**—**	**118**
Total AFS fixed maturity securities	**$ 870,483**	**106,385**	**(1,173)**	**975,695**

	December 31, 2019				
(In USD thousands)		**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
AFS fixed maturity securities:					
U.S. Treasury securities	$	675	80	—	755
States and political subdivisions		335,642	15,834	(127)	351,349
Corporate					
Financial		113,149	8,526	(92)	121,583
Consumer		84,668	4,451	(384)	88,735
Energy		55,597	3,760	(59)	59,298
All Other		139,597	9,492	(291)	148,798
Residential mortgage-backed		84,294	9,169	—	93,463
Other loan-backed and structured securities		25,015	—	(54)	24,961
Other foreign governments		102	17	—	119
Total AFS fixed maturity securities	$	838,739	51,329	(1,007)	889,061

The Company's equity securities consist of common and non-redeemable preferred stocks.

		Fair Value as of December 31,	
(In USD thousands)		**2020**	**2019**
Equity securities:			
Common stock	**$**	**722**	—
Non-redeemable preferred stock fund		**5,150**	—
Total equity securities	**$**	**5,872**	—

VALUATION OF INVESTMENTS

AFS fixed maturity securities are reported in the financial statements at fair value. Equity securities are measured at fair value with the change in fair value recorded through net income. The Company recognized net realized gains of $1.6 million on equity securities held for the year ended December 31, 2020. The Company did not own any equity securities in 2019.

The Company monitors all AFS fixed maturity securities on an on-going basis relative to changes in credit ratings, market prices, earnings trends and financial performance, in addition to specific region or industry reviews. The Company evaluates whether a credit impairment exists for fixed maturity securities by considering primarily the following factors: (a) changes in the financial condition of the security's underlying collateral; (b) whether the issuer is current on contractually obligated interest and principal payments; (c) changes in the financial condition, credit rating and near-term prospects of the issuer; and (d) the payment structure of the security. The Company's best estimate of expected future cash flows used to determine the credit loss amount is a quantitative and qualitative process. Quantitative review includes information received from third-party sources such as financial statements, pricing and rating changes, liquidity and other statistical information. Qualitative factors include judgments related to business strategies, economic impacts on the issuer, overall judgment related to estimates and industry factors as well as the Company's intent to sell the security, or if it is more likely than not that the Company would be required to sell a security before recovery of its amortized cost.

The Company's best estimate of future cash flows involves assumptions including, but not limited to, various performance indicators, such as historical and projected default and recovery rates, credit ratings, and current delinquency rates. These assumptions require the use of significant management judgment and include the probability of issuer default and estimates regarding timing and amount of expected recoveries, which may include estimating the underlying collateral value. In addition, projections of expected future fixed maturity security cash flows may change based upon new information regarding the performance of the issuer. Any credit losses are presented as an allowance rather than as a write-down on AFS fixed maturity securities management does not intend to sell or believes that it is more likely than not we will be required to sell.

We adopted ASU 2016-13 using the prospective transition approach for fixed maturity securities for which other-than-temporary impairment had been recognized prior to January 1, 2020. As a result, the amortized cost remains the same before and after adoption. The effective interest rate on these fixed maturity securities was not changed. Amounts previously recognized in accumulated other comprehensive income as of January 1, 2020 relating to improvements in cash flow expected to be collected will be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after January 1, 2020 will be recorded in earnings when received.

The Company recorded no credit valuation losses on fixed maturity securities for the year December 31, 2020 and recognized no fixed maturity investment impairments for the year ended December 31, 2019.

For AFS fixed maturity securities that have unrealized losses as of December 31, 2020, the gross unrealized losses that have been in a continuous unrealized loss position for less than 12 months, gross unrealized losses that have been in a continuous unrealized loss position for 12 months or longer and fair value are as follows:

	December 31, 2020								
	Less than 12 months			Greater than 12 months			Total		
(In USD thousands, except for # of securities)	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
AFS fixed maturity securities:									
States and political subdivisions	$ 22,168	(330)	12	—	—	—	22,168	(330)	12
Corporate									
Financial	1,308	(14)	1	—	—	—	1,308	(14)	1
Consumer	10,740	(229)	5	1,667	(15)	1	12,407	(244)	6
Energy	5,089	(459)	4	—	—	—	5,089	(459)	4
All Other	6,411	(42)	3	—	—	—	6,411	(42)	3
Other loan-backed and structured securities	14,078	(83)	5	995	(1)	1	15,073	(84)	6
Total AFS fixed maturity securities	$ 59,794	(1,157)	30	2,662	(16)	2	62,456	(1,173)	32

In each category of our fixed maturity securities described below, we do not intend to sell our investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases. While the losses are currently unrealized, we continue to monitor all fixed maturity securities on an on-going basis as future information may become available which could result in an allowance being recorded.

States and political subdivisions. The Company's investments in states and political subdivisions were purchased at a premium, relative to their face amount, and the contractual cash flows are guaranteed by the respective state or political subdivision. Accordingly, it is expected that the securities will not be settled at a price less than the amortized cost bases of the Company's investments.

Corporate. We did not recognize credit losses on corporate securities with unrealized losses that were due to interest rate sensitivity and changes in credit spreads. We believe that fluctuations caused by movements in interest rates and credit spreads have little bearing on the recoverability of our investments. While we are experiencing unrealized losses across several corporate sectors, the energy and automobile sectors have been impacted the most by recent economic pressures and some issuers within these sectors have been downgraded to below investment grade. We have assessed our exposure in the energy sector and believe our investments have access to sufficient liquidity to meet their debt obligations. The auto industry has been able to issue debt which has increased the liquidity of the component companies in the sector significantly. The automobile sector is included in the Consumer subtotal above.

Asset-backed. Our asset-backed securities are primarily collateralized loan obligations. We do not expect to realize any losses for these securities and see the current valuations as a result of general market conditions. All of the active asset-backed securities are rated investment grade.

The following table presents the fair values and gross unrealized losses of fixed maturity securities that are not deemed to have OTTI, aggregated by investment category and length of time that individual securities have been in a continuous loss position at December 31, 2019.

	December 31, 2019								
	Less than 12 months			Greater than 12 months			Total		
(In USD thousands, except for # of securities)	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
AFS fixed maturity securities:									
States and political subdivisions	$ 14,521	(127)	12	—	—	—	14,521	(127)	12
Corporate									
Financial	7,438	(93)	4	—	—	—	7,438	(93)	4
Consumer	15,022	(384)	8	—	—	—	15,022	(384)	8
Energy	2,011	(18)	2	449	(41)	1	2,460	(59)	3
All Other	12,825	(162)	6	2,671	(128)	2	15,496	(290)	8
Other loan-backed and structured securities	22,297	(54)	7	—	—	—	22,297	(54)	7
Total AFS fixed maturity securities	$ 74,114	(838)	39	3,120	(169)	3	77,234	(1,007)	42

We have reviewed the securities in an unrealized loss position for the period ended December 31, 2019 and determined that no OTTI exists that has not been recognized based on our evaluation of the credit worthiness of the issuers and the fact that we do not intend to sell the investments nor is it likely that we will be required to sell the securities before recovery of their amortized cost bases which may be at maturity.

The amortized cost and fair value of AFS fixed maturity securities at December 31, 2020 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date have been reflected based upon the final stated maturity.

(In USD thousands)		Amortized Cost	Fair Value
AFS fixed maturity securities:			
Due in one year or less	$	**9,229**	**9,378**
Due after one year through five years		**59,961**	**65,198**
Due after five years through ten years		**142,837**	**156,542**
Due after ten years		**658,456**	**744,577**
Total AFS fixed maturity securities	$	**870,483**	**975,695**

The Company had 1 investment in any one entity which exceeded 10% of stockholder's equity at December 31, 2020 and 5 investments in any one entity which exceeded 10% of stockholder's equity at December 31, 2019. In addition, there were no investments that were non-income producing for the years ended December 31, 2020 and 2019.

Major categories of net investment income are summarized as follows:

(In USD thousands)		2020	2019
Investment income:			
Fixed maturities available-for-sale	$	**35,593**	34,313
Equity securities		**249**	—
Policy loans		**5,756**	5,635
Other long-term investments		**225**	—
Other		**41**	110
Total investment income		**41,864**	40,058
Investment expenses		**(1,499)**	(1,042)
Net investment income	$	**40,365**	39,016

The Company uses the specific identification method of the individual security to determine the cost basis used in the calculation of realized gains and losses related to security sales.

(In USD thousands)		2020	2019
Proceeds	$	**7,497**	42,424
Gross realized gains	$	**—**	860
Gross realized losses	$	**67**	442

We sold 4 and 32 fixed maturities securities from our available-for-sale portfolio in 2020 and 2019, respectively, as part of a repositioning strategy recommended by our asset manager.

Realized investment gains (losses) for the years ended December 31, 2020 and 2019 are as follows:

(In USD thousands)		**2020**	**2019**
Realized investment gains (losses):			
Sales, calls and maturities:			
Fixed maturity securities	**$**	**(142)**	656
Other long-term investments		**(35)**	—
Realized investment gains (losses)		**(177)**	656
Change in fair value of equity securities		**1,612**	—
Net realized investment gains	**$**	**1,435**	656

4. Fair Value Measurements

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. We hold fixed maturities available-for-sale, which are carried at fair value. We also report our equity securities at fair value with changes in fair value reported through the statement of operations and comprehensive income (loss).

Fair value measurements are generally based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. All assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

- Level 1 - Quoted prices for identical instruments in active markets.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs or whose significant value drivers are observable.
- Level 3 - Instruments whose significant value drivers are unobservable.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as U.S. Treasury securities and stock investments.

Level 2 includes those financial instruments that are valued by independent pricing services or broker quotes. These pricing models are primarily industry-standard models that consider various inputs, such as interest rates, credit spreads and foreign exchange rates for the underlying financial instruments. All significant inputs are observable or derived from observable information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include corporate securities, U.S. Government-sponsored enterprise securities, securities issued by states and political subdivisions and certain mortgage and asset-backed securities.

Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker prices utilizing significant inputs not based on or corroborated by readily available market information.

We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. There were no transfers in or out of Level 3 during the years ended December 31, 2020 and 2019.

The following table sets forth our assets and liabilities that are measured at fair value on a recurring basis as of the date indicated.

(In USD thousands)	December 31, 2020 Level 1		December 31, 2020 Level 2	December 31, 2020 Total Fair Value
Financial assets:				
Fixed maturities available-for-sale:				
U.S. Treasury securities	**$**	**643**	**—**	**643**
States and political subdivisions		**—**	**264,000**	**264,000**
Corporate		**—**	**582,526**	**582,526**
Residential mortgage-backed		**—**	**100,525**	**100,525**
Other loan-backed and structured securities		**—**	**118**	**118**
Other foreign governments		**—**	**27,883**	**27,883**
Total fixed maturities available-for-sale		**643**	**975,052**	**975,695**
Equity securities:				
Common stock		**722**	**—**	**722**
Non-redeemable preferred stock fund		**5,150**	**—**	**5,150**
Total equity securities		**5,872**	**—**	**5,872**
Other long-term investments[1]		**—**	**—**	**11,923**
Total financial assets	**$**	**6,515**	**975,052**	**993,490**

[1] In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheet.

(In USD thousands)	December 31, 2019 Level 1		December 31, 2019 Level 2	December 31, 2019 Total Fair Value
Financial assets - fixed maturities available-for-sale:				
U.S. Treasury securities	$	755	—	755
States and political subdivisions		—	351,349	351,349
Corporate		—	418,414	418,414
Residential mortgage-backed		—	93,463	93,463
Other loan-backed and structured securities		—	24,961	24,961
Other foreign governments		—	119	119
Total financial assets - fixed maturities available-for-sale	$	755	888,306	889,061

FINANCIAL INSTRUMENTS VALUATION

Fixed maturities available-for-sale valuation.

At December 31, 2020, the AFS fixed maturity securities, valued using a third-party pricing source, totaled $975.1 million for Level 2 assets and comprised 98.1% of total reported fair value of our financial assets. The Level 1 and Level 2 valuations are reviewed and validated quarterly through random testing by comparisons to separate pricing models, other third-party pricing services, and back tested to recent trades. In addition, we obtain information relative to the third-party pricing models and review model parameters for reasonableness. There were no Level 3 assets as of December 31, 2020. For the year ended December 31, 2020, there were no material changes to the valuation methods or assumptions used to determine fair values, and no broker or third-party prices were changed from the values received.

Equity securities

Our equity securities are classified as Level 1 assets as their fair values are based upon quoted market prices.

Private equity funds

The Company considers the net asset value ("NAV") to represent the value of the investment fund and is measured by the total value of assets minus the total value of liabilities. The following table includes information related to our investments in private equity funds that calculate NAV per share. For these investments, which are measured at fair value on a recurring basis, we use the NAV per share to measure fair value. These investments are included in other long-term investments on the balance sheets.

		December 31, 2020		
(In USD thousands, except years)	*Description*	**Fair Value Using NAV Per Share**	**Unfunded Commitments**	**Life in years**
Private equity funds				
Middle market	Investments in privately-originated, performing senior secured debt primarily in North America-based companies	**$ 10,542**	**$ 29,783**	**10**
Term liquidity facility	Investments in a facility established by the U.S. Federal Reserve that provides financing to U.S. company market participants for levered asset purchases with a focus on asset-backed, commercial mortgage and collateralized loan obligation markets	**1,381**	**—**	**3**
Late-stage growth	Investments in private late-stage, established companies seeking capital to accelerate growth prior to an IPO or sale	**—**	**16,291**	**7**
Infrastructure	Investments in climate infrastructure assets, focusing on renewable power generation in wind and solar energy	**—**	**17,497**	**12**
Total private equity funds		**$ 11,923**	**$ 63,571**	

Our private equity fund investments are not redeemable because distributions from the funds will be received when the underlying investments of the funds are liquidated. The life spans indicated above may be shortened or extended at the fund manager's discretion, typically in one or two-year increments.

Financial instruments not carried at fair value

Estimates of fair values are made at a specific point in time, based on relevant market prices and information about the financial instruments. The estimated fair values of financial instruments presented below are not necessarily indicative of the amounts the Company might realize in actual market transactions.

The carrying amount and fair value for the financial assets and liabilities on the balance sheet not otherwise disclosed for the periods indicated were as follows:

		December 31, 2020		December 31, 2019	
(In USD thousands)		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Policy loans	$	**72,444**	**72,444**	71,017	71,017
Cash and cash equivalents		**18,528**	**18,528**	18,846	18,846
Financial liabilities:					
Annuities - investment contracts	$	**21,337**	**24,375**	19,536	20,026

Policy loans. Policy loans had a weighted average annual interest rate of 7.5% at both December 31, 2020 and 2019 and no specified maturity dates. The aggregate fair value of policy loans approximates the carrying value reflected on the balance sheets. Policy loans are an integral part of the life insurance policies we have in force, cannot be valued separately and are not marketable. Therefore, the fair value of policy loans approximates the carrying value and policy loans are considered Level 3 assets in the fair value hierarchy.

Other. The fair value of cash and cash equivalents approximate carrying value and are characterized as Level 1 assets in the fair value hierarchy.

Annuity liabilities. The fair value of the Company's liabilities under annuity contract policies, which are considered Level 3 liabilities, was estimated at December 31, 2020 and 2019 using discounted cash flows based upon spot rates adjusted for various risk adjustments ranging from 0.22% to 2.34% and 1.67% to 3.02%, respectively. The fair value of liabilities under all insurance contracts are taken into consideration in the overall management of interest rate risk, which seeks to minimize exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts.

5. Policy Liabilities

Various assumptions used to determine the future policy benefit reserves of life insurance include valuation interest rates, mortality assumptions and withdrawals.

The following table presents information on changes in the liability for life claims for the years ended December 31, 2020 and 2019.

(In USD thousands)		2020	2019
Policy claims payable, beginning of year	$	**2,002**	2,076
Less: reinsurance recoverable		**(751)**	(452)
Net balance		**1,251**	1,624
Add claims incurred, related to:			
Current year		**3,750**	3,917
Prior years		**388**	697
		4,138	4,614
Deduct claims paid, related to:			
Current year		**2,344**	3,176
Prior years		**1,259**	1,811
		3,603	4,987
Net balance, December 31		**1,786**	1,251
Plus: reinsurance recoverable		**37**	751
Policy claims payable, end of year	$	**1,823**	2,002

The Company experienced unfavorable claims development of $0.4 million and $0.7 million in 2020 and 2019, respectively. No unusual claims or trends have been noted.

6. Reinsurance

In the normal course of business, the Company reinsures portions of certain policies that we underwrite to limit disproportionate risks. During 2020 and 2019, we retained varying amounts of individual insurance up to a maximum retention of $100,000 on any life. The Company also reinsures 100% of our accidental death benefit rider coverage. We remain contingently liable to the extent that the reinsuring companies cannot meet their obligations under the reinsurance treaties.

Our amounts recoverable from reinsurers represent receivables from and reserves ceded to reinsurers. We obtain reinsurance from multiple reinsurers, and we monitor concentration as well as financial strength ratings of our principal reinsurers. The ratings by A.M. Best Company of our reinsurers range from A (Excellent) to A+ (Superior).

Direct and ceded life reinsurance activity as of December 31, 2020 and 2019 is summarized as follows:

(In USD thousands)		December 31, 2020	December 31, 2019
Aggregate direct life insurance in force	$	**2,928,711**	3,041,133
Aggregate ceded life insurance in force		**414,512**	420,709
Net life insurance in force	$	**2,514,199**	2,620,424

The Company's reinsurance recoveries on ceded reinsurance were $2.0 million and $2.8 million at December 31, 2020 and 2019, respectively.

Premiums direct and ceded and claims and surrenders ceded for all lines of business are summarized as follows:

(In USD thousands)		**2020**	**2019**
Premiums from long-duration contracts:			
Direct	$	**127,529**	134,747
Ceded		**(2,120)**	(1,839)
Total premiums earned	$	**125,409**	132,908
Claims and surrenders ceded	$	**(733)**	(503)

7. Share Capital

The authorized and issued share capital of the Company is $250,000 divided into 250,000 ordinary shares, par value $1 each.

8. Commitments and Contingencies

From time to time, we are subject to legal and regulatory actions relating to our business. We defend all claims vigorously. As a result, we incur defense costs, including attorneys' fees, other direct litigation costs and the expenditure of management time that otherwise would be devoted to our business. If we suffer an adverse judgment as a result of litigation claims, it could have a material adverse effect on our business, results of operations and financial condition.

As of December 31, 2020, the Company is committed to fund investments up to $68.6 million related to private equity fund.

9. Other Operating Information

The following table sets forth the Company's annual total of earned premiums by geographic area:

(In USD thousands)		**2020**	**2019**
Area:			
Colombia	$	**25,783**	26,768
Venezuela		**19,956**	22,352
Taiwan		**19,078**	19,402
Ecuador		**13,301**	14,198
Argentina		**9,175**	10,069
Other countries		**40,236**	41,958
Net reinsurance		**(2,120)**	(1,839)
Total	$	**125,409**	132,908

10. Statutory Requirements

Under the Bermuda Insurance Act 1978, an insurer is prohibited from declaring or paying a dividend if it is in breach of its Enhanced Capital Requirement ("ECR") or Minimum Margin of Solvency ("MSM") or if the declaration or payment of such dividend would cause such a breach. Where an insurer fails to meet its MSM on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the Bermuda Monetary Authority (the "BMA" or the "Authority"). Insurers are also prohibited from paying a dividend in an amount exceeding 25% of the prior year's total statutory capital and surplus, unless at least two members of the board of directors and its principal representative sign and submit to the BMA an affidavit attesting that a dividend in excess of this amount would not cause such insurer to fail to meet its relevant margins. In certain instances, the insurer would also be required to provide prior notice to the BMA in advance of the payment of dividends.

In the event that such an affidavit is submitted to the BMA in accordance with the Bermuda Insurance Act 1978, and further subject to the Company meeting its MSM and ECR requirements, CICA Ltd. would be permitted to distribute a dividend not exceeding 25% of its prior year's total statutory capital and surplus. Distributions in excess of this amount require the approval of the BMA. Further, CICA Ltd. must obtain the BMA's prior approval before reducing its total statutory capital as shown in its previous financial year statutory balance sheet by 15% or more. CICA Ltd. is also prohibited from declaring or paying any dividends unless the value of its long-term business assets exceeds its long-term business liabilities, as certified by its approved actuary, by the amount of the dividend and at least the MSM. These restrictions on declaring or paying dividends and distributions under the Bermuda Insurance Act 1978 are in addition to those under Bermuda's Companies Act 1981 which apply to all Bermuda companies. The Company met all requirements of the Bermuda Insurance Act 1978 at December 31, 2020 and 2019. Also, based upon these rules, CICA Ltd. can pay a dividend of $4.5 million without prior regulatory approval in 2021. However, the BMA has requested that CICA Ltd. notify the Authority in advance of any potential dividend payments and any intercompany related payments or transactions.

The BMA established risk-based regulatory capital adequacy and solvency margin requirements for Bermuda insurers that mandate that a Bermuda-domiciled subsidiary's ECR be calculated by either: (a) Bermuda Solvency Capital Requirement ("BSCR"); or (b) an internal capital model that the BMA has approved for use for this purpose. The Company uses the BSCR in calculating its solvency requirements. The Economic Balance Sheet framework is embedded as part of the BSCR and forms the basis of its ECR. The Company held capital in excess of the BSCR requirements at December 31, 2020. However, for the quarter ended March 31, 2020, because of the disruption that the COVID-19 pandemic had on the worldwide economy, the fair value of our assets decreased and interest rates also decreased, which increased the fair value of our statutory economic insurance liabilities. As a result, CICA Ltd.'s statutory economic capital and surplus at March 31, 2020 was below the TCL by $8.9 million. While the failure to meet the minimum threshold was rectified as of April 30, 2020, the BMA conducted a review of CICA Ltd. in the third and fourth quarter of 2020 in order to assess CICA Ltd.'s compliance with the Bermuda Insurance Act 1978 and other relevant rules applicable to CICA Ltd. (the "Prudential Review"). As a result of the 2020 Prudential Review by the BMA, on January 14, 2021, the BMA issued a letter to CICA Ltd. that, among other things, requires Citizens to enter into a "Keep Well Agreement" by September 30, 2021. A Keep Well Agreement is a contract between a parent company and its subsidiary to maintain solvency and financial backing throughout the term set in the agreement. A $10 million Keep Well agreement was executed on April 15, 2021 and includes a specific target solvency level at which a capital injection would be required to be made into CICA Ltd. to ensure compliance with the Bermuda Insurance Act 1978 and related rules.

The Company, as a licensed Class E Long term insurer under the Bermuda Insurance Act 1978, is required to maintain a minimum statutory solvency margin equal to the greater of MSM and a percentage of the ECR. The MSM is equal to the greater of (i) $8 million, (ii) 2% of the first $500 million of assets plus 1.5% of assets above $500 million, which is $20.7 million for the Company as at December 31, 2020, or (iii) 25% of ECR, which is $8.6 million for the Company as at December 31, 2020 (calculated as ECR of $34.2 million x 25%). The Company's statutory capital and surplus of $158.4 million as at December 31, 2020, exceeds the MSM of $20.7 million.

11. Related Party Transactions

For the years ended December 31, 2020 and 2019, included in other liabilities is an amount of $1.3 million and $1.0 million, respectively, relating to accrued cost sharing fees payable to Citizens, for certain services provided to the Company at agreed costs and fees pursuant to a services agreement. As part of the service agreement, Citizens was given the authority to perform the following services respecting all accounts and the insurance business of the Company, such as: new application underwriting, claims management, policyowner service, support services for independent marketing consultants, actuarial assistance, policy accounting, commission accounting, investment accounting, general accounting and routine data processing. The consideration for the services to be performed includes a monthly fee equal to Citizens' actual expenses of providing the service, with the exception of the actuarial and underwriting support functions, which include a 12.5% cost markup. The service agreement specifies a minimum monthly consideration of $8 thousand. Amounts expensed in the year amounted to $13.7 million in 2020 and $17.1 million in 2019.

Citizens Change in Control

On July 29, 2020, a change in control of Citizens occurred, and the Harold E. Riley Foundation (the “Foundation”), a charitable organization established under 501(c)(3) of the Internal Revenue Code, is now the owner of 100% of Citizens Class B common stock.

Prior to the change in control, the Harold E. Riley Trust (the “Trust”) was the beneficial owner of 100% of Citizens Class B common stock. The Trust documents provided that upon Harold Riley’s death, which occurred in 2017, the Class B common stock would transfer from the Trust to the Foundation. Because the Class B common stock elects a simple majority of the Board of Directors of Citizens, this transfer constitutes an acquisition of control by the Foundation, which requires prior regulatory approvals by the insurance regulators of Colorado, Louisiana, Mississippi and Texas, the states in which Citizens' insurance subsidiaries are domiciled.

In conjunction with the change in control, Citizens Chief Executive Officer ("CEO") resigned and an Interim CEO was appointed.

See Note 13, *Subsequent Events* below for further discussion of changes related to Citizens.

12. Concentration of Credit Risk

The Company is a party to financial instruments with a concentration of credit risk in the normal course of business. The creditworthiness of any counterparty is evaluated by the Company, taking into account credit ratings assigned by rating agencies. The credit approval process involves an assessment of factors including, among others, the counterparty and country and industry credit exposure limits. Collateral may be required, at the discretion of the Company, on certain transactions based on the creditworthiness of the counterparty and the nature of the transaction. The areas where significant concentrations of credit risk may exist include fixed maturity securities and reinsurance balances receivable (collectively, “reinsurance assets”). For reinsurance assets, the risk of loss is mitigated by the Company’s ability to offset amounts owed to the ceding company with the amounts owed to the Company by the ceding company. Mitigating factors include using financially sound custodians, investment grade collateral with further investment guidelines governing the quality of the portfolio, ceding companies with high credit ratings, and the ability to offset amounts owed to ceding companies with amounts due from them.

AFS Fixed Maturity Securities

The Company's investments are managed following prudent standards of diversification. The Company attempts to limit its credit exposure by purchasing a diversified pool of high-quality fixed maturity securities to maintain an average investment grade portfolio that can be pledged as collateral or support retained earnings.

13. Subsequent Events

We have evaluated for subsequent events as defined by the accounting guidance through the date of financial statement issuance.

On February 6, 2021, Baylor University and Southwestern Baptist Theological Seminary, the two sole charitable beneficiaries of the Foundation (the "Foundation Beneficiaries") gained control of the Foundation and entered into a Mutual Agreement for Compromise, Settlement and Release with Citizens and its individual directors (the "Foundation Settlement Agreement") to resolve the litigation that had been filed by the Foundation against Citizens and its eight individual board members captioned *Harold E. Riley Foundation v. Claus, et al.* in the District Court (the "Colorado Court") for Arapahoe County, Colorado (the "Colorado Litigation"). On February 10, 2021, the Colorado Court entered an order granting final approval of the Foundation Settlement Agreement.

The Foundation Settlement Agreement, among other things, provided for certain governance arrangements, including certifying Citizens' board membership as it existed as of August 12, 2020, as well as the repurchase by Citizens of all of its Class B common stock held by the Foundation.

On February 5, 2021, Citizens also entered into a Mutual Agreement for Compromise, Settlement and Release (the "Hughes-Hott-Boto Settlement Agreement") with Michael C. Hughes, Charles W. Hott and David A. Boto as officers or trustees of the Foundation. The Hughes-Hott-Boto Settlement Agreement dismissed the counterclaims and third-party claims in the Colorado Litigation filed by Citizens and resolved potential claims which could have been made against the Foundation, Mr. Hott, Mr. Hughes and Mr. Boto.

On February 6, 2021, pursuant to the Foundation Settlement Agreement, Citizens entered into an agreement with the Foundation to purchase all of the Class B common stock for a purchase price of $9.1 million (the "B Share Transaction"). In accordance with such purchase agreement, the purchase price was paid to the Foundation on March 5, 2021. On April 12, 2021, the Company and the Foundation received the last of the regulatory approvals required for the Foundation to divest control of the Company and thus all of the Foundation's Class B common stock was transferred to the Company as of such date. In accordance with Colorado law, as of April 12, 2021, Class B common stock is classified as authorized, but unissued shares. On March 9, 2021, the Board passed a resolution stating that as long as the Class B common stock is being held as unissued shares, the Company will not vote, nor permit any other person or entity to exercise any voting rights or other rights, with respect to the Class B common stock.