



May 28, 2021

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Special Insurance Risk Services Ltd.

We have audited the accompanying condensed financial statements of Special Insurance Risk Services Ltd. (the "Company"), which comprise the condensed balance sheet and condensed statement of capital and surplus as of December 31, 2020 and 2019, and the related condensed statement of income for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Condensed Financial Statements

Management is responsible for the preparation and fair presentation of the condensed financial statements based on the financial reporting provisions of The Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to Condensed General Purpose Financial Statements (the "Legislation"). Management is also responsible 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these condensed 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 condensed financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the condensed financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the condensed 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 condensed financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



INDEPENDENT AUDITORS' REPORT *(continued)*

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 3 to the condensed financial statements, the condensed financial statements are prepared by the Company based on the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting standards generally accepted in the United States of America.

The effects on the condensed financial statements of the variances between the basis of accounting described in Note 3 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Standards Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the "Basis for adverse opinion on U.S. Generally Accepted Accounting Principles" paragraph, the condensed financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2020 and 2019, or the results of its operations or its cash flows for the years then ended.

Opinion on Condensed Financial Statements

In our opinion, the condensed financial statements referred to above present fairly, in all material respects, the financial position of the Special Insurance Risk Services Ltd. as of December 31, 2020 and 2019, and the results of its operations for the years then ended, in accordance with the financial reporting provisions of the Legislation described in Note 3.

A handwritten signature in black ink that reads "Mazars Limited". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Hamilton, Bermuda

CONDENSED BALANCE SHEET

Special Insurance Risk Services Ltd.

As at **December 31, 2020**

expressed in ['000s] **United States Dollars**

LINE No.	2020	2019
1. CASH AND CASH EQUIVALENTS	2,419	1,724
2. QUOTED INVESTMENTS:		
(a) Bonds and Debentures		
i. Held to maturity		
ii. Other	3,176	3,332
(b) Total Bonds and Debentures	3,176	3,332
(c) Equities		
i. Common stocks	8,441	6,319
ii. Preferred stocks		
iii. Mutual funds	776	1,750
(d) Total equities	9,217	8,069
(e) Other quoted investments		
(f) Total quoted investments	12,393	11,401
3. UNQUOTED INVESTMENTS:		
(a) Bonds and Debentures		
i. Held to maturity		
ii. Other		
(b) Total Bonds and Debentures	-	-
(c) Equities		
i. Common stocks		
ii. Preferred stocks		
iii. Mutual funds		
(d) Total equities	-	-
(e) Other unquoted investments		
(f) Total unquoted investments	-	-
4. INVESTMENTS IN AND ADVANCES TO AFFILIATES		
(a) Unregulated entities that conduct ancillary services		
(b) Unregulated non-financial operating entities		
(c) Unregulated financial operating entities		
(d) Regulated non-insurance financial operating entities		
(e) Regulated insurance financial operating entities		
(f) Total investments in affiliates	-	-
(g) Advances to affiliates		
(h) Total investments in and advances to affiliates	-	-
5. INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE:		
(a) First liens		
(b) Other than first liens		
(c) Total investments in mortgage loans on real estate	-	-
6. POLICY LOANS		
7. REAL ESTATE:		
(a) Occupied by the company (less encumbrances)		
(b) Other properties (less encumbrances)		
(c) Total real estate	-	-
8. COLLATERAL LOANS		
9. INVESTMENT INCOME DUE AND ACCRUED	2	2
10. ACCOUNTS AND PREMIUMS RECEIVABLE:		
(a) In course of collection		
(b) Deferred - not yet due		
(c) Receivables from retrocessional contracts	-	-
(d) Total accounts and premiums receivable	-	-
11. REINSURANCE BALANCES RECEIVABLE:		
(a) Foreign affiliates		
(b) Domestic affiliates		
(c) Pools & associations		
(d) All other insurers	544	493
(e) Total reinsurance balance receivable	544	493
12. FUNDS HELD BY CEDING REINSURERS	442	465

CONDENSED BALANCE SHEET

Special Insurance Risk Services Ltd.

As at December 31, 2020

expressed in ['000s] United States Dollars

LINE No.		2020	2019
13.	SUNDRY ASSETS:		
(a)	Derivative instruments		
(b)	Segregated accounts companies - long-term business - variable annuities		
(c)	Segregated accounts companies - long-term business - other		
(d)	Segregated accounts companies - general business		
(e)	Deposit assets		
(f)	Deferred acquisition costs		
(g)	Net receivables for investments sold		
(h)	Unearned Premium Ceded	35	30
(i)	Other Sundry Assets (Specify)		
(j)	Other Sundry Assets (Specify)		
(k)	Total sundry assets	35	30
14.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(e)	Total letters of credit, guarantees and other instruments	-	-
15.	TOTAL	15,835	14,115
	TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS		
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	-	-
(b)	Less: Ceded unearned premium reserve		
	i. Foreign affiliates		
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other insurers		
(c)	Total ceded unearned premium reserve	-	-
(d)	Net unearned premium reserve	-	-
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	5,870	5,927
(b)	Less : Reinsurance recoverable balance		
	i. Foreign affiliates		
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other reinsurers	225	-
(c)	Total reinsurance recoverable balance	225	-
(d)	Net loss and loss expense provisions	5,645	5,927
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES		
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	5,645	5,927
	LONG-TERM BUSINESS INSURANCE RESERVES		
20.	RESERVE FOR REPORTED CLAIMS		
21.	RESERVE FOR UNREPORTED CLAIMS		
22.	POLICY RESERVES - LIFE		
23.	POLICY RESERVES - ACCIDENT AND HEALTH		
24.	POLICYHOLDERS' FUNDS ON DEPOSIT		
25.	LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS		
26.	OTHER LONG-TERM BUSINESS INSURANCE RESERVES		
27.	TOTAL LONG-TERM BUSINESS INSURANCE RESERVES		
(a)	Total Gross Long-Term Business Insurance Reserves	-	-
(b)	Less: Reinsurance recoverable balance on long-term business		
	(i) Foreign Affiliates		
	(ii) Domestic Affiliates		
	(iii) Pools and Associations		
	(iv) All Other Insurers		
(c)	Total Reinsurance Recoverable Balance	-	-
(d)	Total Net Long-Term Business Insurance Reserves	-	-

CONDENSED BALANCE SHEET

Special Insurance Risk Services Ltd.

As at **December 31, 2020**

expressed in ['000s] **United States Dollars**

LINE No.		2020	2019
	OTHER LIABILITIES		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	621	753
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE		
30.	LOANS AND NOTES PAYABLE		
31.	(a) INCOME TAXES PAYABLE	(237)	(356)
	(b) DEFERRED INCOME TAXES	989	657
32.	AMOUNTS DUE TO AFFILIATES		
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	56	57
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:		
35.	DIVIDENDS PAYABLE		
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments		
(b)	Segregated accounts companies		
(c)	Deposit liabilities		
(d)	Net payable for investments purchased		
(e)	Other sundry liabilities (specify)		
(f)	Other sundry liabilities (specify)		
(g)	Other sundry liabilities (specify)		
(h)	Total sundry liabilities	-	-
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(d)	Total letters of credit, guarantees and other instruments	-	-
38.	TOTAL OTHER LIABILITIES	1,429	1,111
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	7,074	7,038
	CAPITAL AND SURPLUS		
40.	TOTAL CAPITAL AND SURPLUS	8,761	7,077
41.	TOTAL	15,835	14,115
		TRUE	TRUE
		-	-

SPECIAL INSURANCE RISK SERVICES LTD.

NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2020

Matters to be set forth in a General Note to the Financial Statements

1. The ultimate beneficial shareholders of Special Insurance Risk Services Ltd. are as follows;

Philip Rearick	50.5%
Jill Aitken	20%
Jancye Tierney	20%
Susan Sartain	4.5%
Carissa Owen	2.5%
Beth Banks	2.5%

2. The Company has assumed Accident and Health and Employers Liability policies written through various carriers. The underlying business is underwritten by an affiliate of the Company.

3. The condensed general purpose financial statements have been prepared in conformity with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to Condensed General Purpose Financial Statements (the "Legislation"). The condensed general purpose financial statements are based upon accounting principles generally accepted in the United States of America ("US GAAP") but are in accordance with the reporting requirements of the Legislation, which varies in certain respects from US GAAP. The more significant variances are as follows:

- A statement of cash flows is not included;
- A statement of comprehensive income is not included;
- The presentation and classification of financial statement line items is in accordance with Schedules IX and XI of the Insurance Account Rules 2016 and differ from the expected presentation and classification under US GAAP; and
- The notes included in the condensed general purpose financial statements have been prepared in accordance with Schedule X of the Insurance Account Rules 2016 and exclude certain information required under US GAAP.

4. The significant accounting policies are as follows:

a. Premiums

Premiums assumed are recorded as advised by the ceding insurance companies, which approximates the accruals basis and are included in income on a pro-rata basis over the life of the treaties. Premiums ceded are earned pro rata over the terms of the coverage in place.

b. Outstanding losses and loss expense provision

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, changes in reported claims and for claims incurred but not reported ("IBNR"), based on the recommendations of an independent actuary using past claims experience, business in force and industry data. The estimates are regularly reviewed and updated, and any resulting adjustments are included in income in the period in which they become known.

Matters to be set forth in a General Note to the Financial Statements *(continued)*

4. The significant accounting policies are as follows: *(continued)*

c. Investments

Investments are carried in the balance sheet at market value and any unrealized gains or losses are reported as a separate component of surplus (net of deferred taxes) until sold. Realized gains or losses arising from the sale of investments are reflected in the net income from operations in the years in which they arise.

d. Investment income

Investment income comprises interest and dividend income which is accrued to the balance sheet date.

e. Cash and time Deposits

Cash and time deposits include cash held in banks, money market funds and other short-term deposits having maturities within three months of the date of purchase.

Certificates of Deposit which have maturities in excess of three months at the date of purchase are included within cash and time deposits as per the requirements of the Act.

f. Taxes

The Company elected to be treated as a U.S. domestic insurance company for U.S. federal tax purposes under section 953(d) of the U.S. Internal Revenue code, and is therefore subject to income taxation in the U.S. Deferred income taxes are determined based on the difference between the tax basis of an asset or liability and its reported amount in the financial statements using enacted tax rates. Net deferred tax liabilities are recognized in the accompanying balance sheet. The primary difference between accounting and taxable income arises from the requirement to discount loss and loss expense provisions. Net deferred tax benefits are not recognized as assets.

5. Premiums income – see note 4 a.

Investment income – see note 4 d.

Commission income – not applicable ('N/A')

6. N/A.

7. N/A

8. N/A

9. N/A

10. N/A.

Matters to be set forth in a General Note to the Financial Statements *(continued)*

11. N/A

12. N/A

13. Investments

Fair Value Measurement

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that the reporting entity can access at the measurement date.

Level 2: inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly.

Level 3: Unobservable inputs

The Company reviews its investments measured at fair value and discusses the proper classification of such investments with its investment manager. The Company's review process includes, but is not limited to initial and ongoing evaluation of methodologies used by outside parties to calculate fair value, where information is available, which includes selecting securities sold and comparing the executed prices to the fair value estimates from the pricing services. At December 31, 2019, the Company has determined fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
December 31, 2020	\$	\$	\$	\$
Fixed maturity investments	-	3,176,253	-	3,176,253
Equities	8,441,432	-	-	8,441,432
Mutual Funds	775,838	-	-	775,838
Total investments	9,217,270	3,176,253	-	12,393,523

	Level 1	Level 2	Level 3	Total
December 31, 2019	\$	\$	\$	\$
Fixed maturity investments	-	3,331,736	-	3,331,736
Equities	6,318,651	-	-	6,318,651
Mutual Funds	1,750,176	-	-	1,750,176
Total investments	8,068,827	3,331,736	-	11,400,563

Matters to be set forth in a General Note to the Financial Statements *(continued)*

14. The contractual maturity profile of the insurers' fixed maturity and short-term investments:

	December 31, 2020	
	Cost	Fair Value
	\$	\$
Due within one year	333,271	331,982
Due within one through five years	1,421,677	1,459,906
Due after five through ten years	1,278,940	1,352,704
Due after ten years	30,426	31,661
Total fixed maturity investments	3,064,314	3,176,253

	December 31, 2019	
	Cost	Fair Value
	\$	\$
Due within one year	281,021	279,658
Due within one through five years	1,468,360	1,479,109
Due after five through ten years	1,485,114	1,521,723
Due after ten years	51,977	51,246
Total fixed maturity investments	3,286,472	3,331,736

15. Related party transactions

As noted above the underlying business is underwritten by an affiliate of the Company, Special Insurance Services (SIS) and included within commissions and brokerage are amounts payable to SIS, these terms are same as those applied to other participants on the insurance program.

Included within general and administrative expenses are consultancy fees of \$240,000 (2019: \$240,000) payable to directors of the company of which \$Nil was outstanding at year end.

Marsh Management Services (Bermuda) Limited is considered a related party by virtue of having common directors. During the year, the Company was charged \$115,000 (2019: \$115,000) management fees of which \$Nil was payable at year end.

Estera Services (Bermuda) Limited is considered a related party by virtue of having common directors. During the year, the Company was charged \$12,079 (2019: \$11,239) secretarial fees of which \$Nil was payable at year end.

16. N/A.

17. On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen that have had serious and adverse consequences to business conditions around the globe following December 31, 2019. The COVID-19 outbreak has resulted in limitations on travel, transportation, education, production of goods, provision of services and businesses operations generally. Although the long-term economic fallout of COVID-19 is difficult to predict, the challenging business conditions currently faced by the Company are highly likely to have adverse effects on their financial performance and, as a result, likely to adversely impact valuations of the Company's investments for future periods, which may be material. At the current time, we are unable to quantify the potential effects of this pandemic on future financial statements.

Matters to be set forth in Notes to the Statement of Capital and Surplus

1. (a) Authorised, Issued and fully paid 120,000 Common shares of par value US\$1.00.
(b) – (d) N/A.
2. (c) N/A

Matters to be set forth in Notes to the Balance Sheet

1. Cash and cash equivalents
The Company has cash of \$335,460 (2019: \$65,458) and investments of \$4,303,134 (2019: \$3,906,452) pledged as collateral for letters of credit in the amount of \$2,628,590 (2019: \$2,628,590).

The Company has cash of \$904,886 (2019: \$676,733) and investments of \$6,881,833 (2019: \$6,163,910) held in trust accounts for the benefit of ceding insurers.
2. Quoted investments
See General Note 4(c)
Encumbrances – See Note 1 above
3. Unquoted investments
N/A
4. Investment in and advances to affiliates
N/A
5. Investment in mortgage loans on real estate
N/A
6. Policy loans
N/A
7. Real estate
N/A
8. Collateral loans
N/A
9. Investment income due and accrued
N/A.
10. Accounts and premiums receivable
N/A.
11. Reinsurance balances receivable
Reinsurance balances receivable are from non-affiliated ceding reinsurers and are not collateralized.
12. Funds held by ceding reinsurers
Funds withheld by ceding reinsurer in the amount \$442,302 (2019: \$465,291) represents a portion of premium due to the Company used to secure the payment of losses and loss expenses in accordance with the terms reinsurance agreements. This is held by a non-affiliated reinsurer.

Matters to be set forth in Notes to the Balance Sheet *(continued)*

13. Sundry assets
Represents the unearned portion on ceded premiums which is calculated pro rata over the terms of the coverage in place
14. Letters of credit, guarantees and other
N/A
16. Unearned premium reserve
N/A
17. Loss and loss expense provisions
See General Note 4 (b) for the method of calculating loss and loss expense provision.

Movement in loss and loss expense provisions is summarized as follows:

	2020	2019
		\$
Gross Loss and Loss expense provision at beginning of year	5,927,241	5,445,082
Less: Reinsurance recoverable at beginning of year	-	-
Net loss expense provision at beginning of year	<u>5,927,241</u>	<u>5,445,082</u>
Losses incurred related to:		
Current year	6,476,221	8,029,440
Prior years	(912,948)	(31,885)
Total incurred net incurred losses and Loss expenses	<u>5,563,273</u>	<u>7,997,555</u>
Net losses and loss expenses paid or payable related to:		
Current year	3,254,030	3,957,205
Prior years	2,591,068	3,558,191
Total losses and loss expenses paid or payable	<u>5,845,098</u>	<u>7,515,396</u>
Foreign exchange and other		-
Net Loss and loss expense provision at end of year	5,645,416	5,927,241
Add Reinsurance recoverable at end of year	224,901	-
Gross Loss and Loss expense provision at end of year	<u><u>5,870,317</u></u>	<u><u>5,927,241</u></u>

The changes in the prior years' provision for losses and loss expenses was primarily due to the ongoing analysis of loss development trends and was not attributable to any specific occurrence or event.

Cash and investments totaling \$12,425,315 (2019: \$10,812,553) and funds withheld of \$442,302 (2019: \$465,291) have been provided as security to secure the Company's obligations to ceding insurers.

20. Reserves for reported claims
N/A
21. Reserves for unreported claims
N/A

Matters to be set forth in Notes to the Balance Sheet *(continued)*

- 22. Policy reserves – life
N/A
- 23. Policy reserves accident and health
N/A
- 24. Policyholders’ funds on deposit
N/A
- 25. Liability for future policyholders’ dividends
N/A
- 26. Other insurance reserves - long term
N/A
- 27. Total long-term business insurance reserves
N/A
- 28. Insurance and reinsurance balances payable
N/A
- 29. Commissions, expenses, fees and taxes payable
N/A
- 30. Loans and notes payable
N/A

31(b) The components of the deferred income tax liability as of December 31, 2020 as follows:

	2020	2019
	\$	\$
Discounting of loss and loss expense provision	7,136	(17,952)
Net unrealized gain on investments	981,563	675,069
Net deferred tax liability	<u>988,699</u>	<u>657,117</u>
32. Amounts due to affiliates N/A		
33. Accounts payable and accrued liabilities	2020	2019
	\$	\$
Audit fees	28,000	27,000
Actuarial fees	15,000	16,000
Tax service fees	12,832	13,696
Total accounts payable and accrued liabilities	<u>55,832</u>	<u>56,696</u>

Matters to be set forth in Notes to the Balance Sheet *(continued)*

- 34. Funds held under reinsurance contracts
N/A
- 35. Dividends payable
N/A
- 36. Sundry liabilities
N/A
- 37. Letters of credit, guarantees and other instruments
N/A

Matters to be set forth in Notes to the Statement of Income

- 6. Other insurance income
N/A
- 15. Other insurance income
N/A
- 32. Combined other income (deductions)
N/A.
- 36. Realized gains reflect net gains resulting from the sale of marketable securities during the year.