Audited Financial Statements

Coralisle Re Ltd.
(formerly Colonial Re Ltd.)
Year Ended December 31, 2020
With Independent Auditor's Report

Ernst & Young Ltd.

Building a better
working world

Coralisle Re Ltd.
(formerly Colonial Re Ltd.)

Audited Financial Statements

Year Ended December 31, 2020

Contents

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Independent Auditor's Report

The Shareholder
Coralisle Re Ltd.
(formerly Colonial Re Ltd.)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Coralisle Re Ltd. (formerly Colonial Re Ltd.) (the "Company") which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants* (*including International Independence Standards*) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Board of Directors for the Financial Statements

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ernst & Young Ltd.

Hamilton, Bermuda
April 29, 2021

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Coralisle Re Ltd.
(formerly Colonial Re Ltd.)

Statement of Financial Position
(Expressed in Bermuda Dollars)

	December 31 2020	December 31 2019
Assets		
Cash and cash equivalents *(Note 3)*	**$ 93,305**	$ 62,377
Time deposit *(Note 4)*	**319,832**	314,900
Financial assets *(Note 4)*	**13,156,459**	12,449,200
Amount due from related companies *(Note 8)*	**3,796,220**	756,505
Accounts receivable and accrued interest	**18,110**	16,979
Total assets	**$ 17,383,926**	$ 13,599,961
Liabilities		
Outstanding losses and loss expenses *(Note 5)*	**$ –**	$ –
Amounts due to related companies *(Note 8)*	**720,855**	1,698,635
Accounts payable and accrued expenses	**16,688**	12,385
Total liabilities	**737,543**	1,711,020
Shareholder's equity		
Share capital *(Note 7)*	**120,000**	120,000
Contributed surplus *(Note 7)*	**11,396,443**	8,396,443
Retained earnings	**5,129,940**	3,372,498
Total equity attributable to the equity holder of the Company	**$ 16,646,383**	$ 11,888,941
Total liabilities and shareholder's equity	**$ 17,383,926**	$ 13,599,961

See accompanying notes.

Approved for issuance on behalf of the Board of Directors of Coralisle Re Ltd. (formerly Colonial Re Ltd.) on April 29, 2021 by:

On behalf of the Board of Directors:

/s/ James Finbarr Mathias O'Shaughnessy
Director Date: April 29, 2021

/s/ Edmund Graham (Grant) Gibbons III
Director Date: April 29, 2021

Coralisle Re Ltd.
(formerly Colonial Re Ltd.)

Statement of Comprehensive Income/Loss
(Expressed in Bermuda Dollars)

	Year Ended December 31	
	2020	**2019**
Premiums written and earned	**$ 1,090,700**	$ 951,700
Change in outstanding losses	–	3,000,000
Net claims incurred	–	3,000,000
Net underwriting income (loss)	**1,090,700**	(2,048,300)
Investment income *(Notes 4 and 8)*	**764,006**	1,137,509
General and administrative expenses	**(97,264)**	(94,797)
Total comprehensive income (loss) for the year	**$ 1,757,442**	$ (1,005,588)

See accompanying notes.

Coralisle Re Ltd.
(formerly Colonial Re Ltd.)

Statement of Changes in Shareholder's Equity
(Expressed in Bermuda Dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total Equity Attributable to the Equity Holder of the Company
Balance at December 31, 2018	$ 120,000	$ 8,396,443	$ 4,378,086	$ 12,894,529
Net loss for the year	–	–	(1,005,588)	(1,005,588)
Balance at December 31, 2019	$ 120,000	$ 8,396,443	$ 3,372,498	$ 11,888,941
Additions for the year	**–**	**3,000,000**	**–**	**3,000,000**
Net income for the year	**–**	**–**	**1,757,442**	**1,757,442**
Balance at December 31, 2020	**$ 120,000**	**$ 11,396,443**	**$ 5,129,940**	**$ 16,646,383**

See accompanying notes.

Coralisle Re Ltd.
(formerly Colonial Re Ltd.)

Statement of Cash Flows
(Expressed in Bermuda Dollars)

	Year Ended December 31	
	2020	**2019**
Operating activities		
Net income (loss) for the year	**$ 1,757,442**	$ (1,005,588)
Adjustments for:		
Interest income	**(123,486)**	(41,481)
Net unrealized gains on financial assets	**(633,185)**	(929,974)
Realized gains on financial assets	**(52,150)**	(59,342)
Bond amortization	**3,346**	(9,102)
Operating cash flow before changes in operating working capital	**951,967**	(2,045,487)
Change in operating working capital:		
Accounts receivable and accrued interest	**(1,131)**	(2,126)
Outstanding losses and loss expenses	**–**	(233,132)
Accounts payable and accrued liabilities	**4,303**	3,389
Cash provided by (used in) operating activities	**955,139**	(2,277,356)
Investing activities		
Amounts due from related companies	**(3,039,715)**	600,578
Amounts due to related companies	**(977,780)**	1,698,635
Interest income received	**118,555**	35,245
Purchase of investments/rollovers/renewals	**(3,295,799)**	(2,523,403)
Proceeds of sales/maturities of investments	**3,270,528**	2,063,308
Cash (used in) provided by investing activities	**(3,924,211)**	1,874,363
Financing activities		
Contributed surplus	**3,000,000**	–
Cash provided by financing activities	**3,000,000**	–
Net increase (decrease) in cash and cash equivalents	**30,928**	(402,993)
Cash and cash equivalents at beginning of year	**62,377**	465,370
Cash and cash equivalents at end of year	**$ 93,305**	$ 62,377

See accompanying notes.

1. General

Coralisle Re Ltd. (formerly Colonial Re Ltd.) (the Company) was incorporated under the laws of Bermuda on March 10, 2004. It is a wholly owned subsidiary of Coralisle Group Ltd. (formerly Colonial Group International Ltd.) (the Parent). The Company holds a Class 3A license under the Insurance Act 1978 of Bermuda and related regulations to write all classes of related party property and casualty business. The registered office and principle place of business of the Company is Jardine House, 33-35 Reid Street, Hamilton, Bermuda. The Parent, an entity domiciled in Bermuda, is fully owned by Edmund Gibbons Limited, also an entity domiciled in Bermuda.

2. Summary of Significant Accounting Policies

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements, including all notes, were authorized for issue by the Board of Directors on April 29, 2021.

Basis of Measurement

The financial statements have been compiled on the going concern basis and prepared on the historical cost basis; except for the financial assets at fair value through profit and loss, which are stated at fair value. The statement of financial position is presented in order of liquidity.

Functional and Presentation Currency

The financial statements are presented in Bermuda dollars, the Company’s functional currency.

2. Summary of Significant Accounting Policies (continued)

Foreign Currency Translation

Transactions involving currencies other than the Bermuda dollar are translated at exchange rates ruling at the time of those transactions. All monetary assets and liabilities originating in such currencies are translated at the rates ruling at the statement of financial position date. Any profits or losses on exchange are included in the statement of comprehensive income.

Use of Estimates and Judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and 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 income and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the Notes 4, 5 and 6.

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurement

Fair value is determined based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is measured using the assumptions that market participants would use when pricing an asset or liability. The Company determines fair value by using quoted prices in active markets for identical or similar assets or liabilities. When quoted prices in active markets are not available, fair value is determined using valuation techniques that maximize the use of observable inputs. When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation techniques and valuation inputs. The use of alternative valuation techniques or valuation inputs may result in a different fair value. A description of the fair value methodologies and assumptions by type of asset is included in Note 4.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Company considers all cash on hand, time deposits with an original maturity of three months or less and money market funds which can be redeemed without penalty as equivalent to cash.

Time Deposit

Time deposit consists of a fixed deposit with an original maturity period of greater than 90 days. Any interest accruing on the deposit is accrued to the balance sheet date.

Financial Assets

The Company has the following financial assets: (i) financial assets at fair value through profit or loss and (ii) financial assets held at amortized cost. Management determines the classification at initial recognition and is dependent on the nature of the assets and the purpose for which the assets were acquired. Financial assets are recognized in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

2. Summary of Significant Accounting Policies (continued)

Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient; the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to managing its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

2. Summary of Significant Accounting Policies (continued)

Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial Assets Carried at Amortized Cost

The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets classified as investments at amortized cost include all notes and bonds, loans and other receivables and term deposits.

2. Summary of Significant Accounting Policies (continued)

Financial Assets at Fair Value Through OCI (Debt Instruments)

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon de-recognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

Financial Assets at Fair Value Through OCI (Equity Instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation, and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company has not designated any financial assets under this classification.

2. Summary of Significant Accounting Policies (continued)

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes listed equity investments which the Company had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

De-recognition

A financial asset is de-recognized when the Company's rights to contractual cash flows expires, when the Company transfers substantially all its risks and rewards of ownership or when the Company no longer retains control.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass - through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

2. Summary of Significant Accounting Policies (continued)

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

Impairment of Financial Assets

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Company's expected credit loss ("ECL") calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Company's criteria for assessing if there has been a significant increase in credit risk, and so allowances for financial assets should be measured on a Lifetime ECL ("LTECL") basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, Exposure at Default ("EAD") and Loss Given Defaults ("LGD")
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

2. Summary of Significant Accounting Policies (continued)

Under the general approach expected credit losses are categorized into one of three stages. Under stage 1 of the general approach, each financial asset or financial asset grouping will be measured for expected credit losses that result from default events that are possible within the 12 months subsequent to the current fiscal period (12-month ECL). Under stage 2 and 3 of the general approach, the financial asset or financial asset group must recognize an expected credit loss allowance for possible default events that may take place over the remaining life of the instrument (lifetime ECL). The categorization of an individual asset or asset group into stage 1, stage 2 or stage 3 is determined by whether there was a significant increase in credit risk since the initial recognition to the reporting date, with the exception of an asset that is categorized as low credit risk.

The stage 1 ECL classification is used for low credit risk assets or assets that have shown significant improvement in credit quality and is reclassified from stage 2 or has had no significant change in credit risk since initial recognition.

The stage 2 ECL classification is used for assets for which there has been a significant decrease in credit quality since initial recognition, or stage 3 assets that have shown significant improvement in credit quality. The stage 3 ECL is reserved for assets considered to be credit impaired.

The Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. Further, the Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

2. Summary of Significant Accounting Policies (continued)

Impairment of Non-Financial Assets (Including Receivables)

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Company bases its impairment calculation on detailed budgets and forecast calculations.

Impairment losses are recognized in the statement of comprehensive income; they are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Outstanding Losses and Loss Expenses

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

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

2. Summary of Significant Accounting Policies (continued)

Premiums Written and Earned

Premiums written and earned are recorded on the accruals basis and are included in income on a pro-rated basis over the risk period of the policies with the unearned portion deferred in the balance sheet.

Investment Income

Interest on cash and cash equivalents and time deposits is recorded on an accrual basis. Dividend income is recognized when the right to receive it is established.

Taxation

Under the laws of Bermuda there is presently no income, withholding or capital gains tax payable by the Company.

New Standards, Interpretations and Amendments to Published Standards

New Standards, Amendments and Interpretations Effective and Adopted for the Financial Year Beginning January 1, 2020

Amendments to IAS 1 and IAS 8 Definition of Material provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to, the Company.

2. Summary of Significant Accounting Policies (continued)

New Standards, Amendments and Interpretations Issued but Not Yet Effective for the Financial Year Beginning January 1, 2020 and not Early Adopted

IFRS 17, *Insurance Contracts* was issued in May 2018 and provides a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. The standard is effective for reporting periods starting on or after January 1, 2023. Early application is permitted, provided that the Company also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Company intends to adopt the standard at it mandatory effective date and is currently evaluating the impact of this standard.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

There were no other such standards, interpretations or amendments to existing standards that are expected to have a significant impact on the Company.

There were no other such standards, interpretations or amendments to existing standards that are expected to have a significant impact on the Company.

3. Cash and Cash Equivalents

Cash and cash equivalents represent current account and demand deposit balances, with $93,305 (2019 – $62,377) held by Clarien Bank (Note 8).

(Expressed in Bermuda Dollars)

4. Time Deposit and Financial Assets

A time deposit of $319,832 (2019 – $314,900) with a maturity of one year is held by Clarien Bank (Note 8). The time deposit has an interest rate of 2% (2019 – 2.0%).

At the balance sheet date, financial assets are categorized as follows:

	2020		2019	
	Carrying Value	Cost/ Amortized Cost	Carrying Value	Cost/ Amortized Cost
At fair value through profit or loss	**$ 12,211,144**	**$ 10,840,805**	$ 11,212,801	$ 10,469,040
Amortized costs	**945,315**	**945,315**	1,236,399	1,236,399
	$ 13,156,459	**$ 11,786,120**	$ 12,449,200	$ 11,705,439

Amortized Cost Investments

Investments held at amortized costs include fixed maturity debt instruments and preferred shares which mature as follows:

	2020	2019
Less than one year	**$ 69,996**	$ 139,907
From one year to five years	**500,796**	722,608
From five years to ten years	**374,523**	373,884
	$ 945,315	$ 1,236,399

Financial assets held-to-maturity are carried at amortized cost and comprise corporate debt instruments. The corporate debt instruments have maturities ranging from 2021 to 2026 with coupon rates ranging from 1.875% and 4.55%. The fair value of these investments at the balance sheet date are $1,026,682 (2019 – $1,284,476).

(Expressed in Bermuda Dollars)

4. Time Deposit and Financial Assets (continued)

Financial Assets at amortized cost, include those assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss comprise the following:

	2020		2019	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Managed funds	**$ 9,976,940**	**$ 8,659,133**	$ 9,616,895	$ 8,899,133
US Government bonds	**1,591,924**	**1,550,048**	1,595,906	1,569,907
Corporate Bonds	**587,535**	**581,017**	–	–
Preferred securities	**54,745**	**50,607**	–	–
Total	**$ 12,211,144**	**$ 10,840,805**	$ 11,212,801	$ 10,469,040

The managed funds owned by the Company invest in a number of different types of investments which include: large cap, small cap, emerging market equity and alternative investments which can include private equity. These investments are subject to the conditions and restrictions as further defined in the terms of the offering of each fund, which are usually contained in a formal Offering Memoranda. Such Offering Memoranda generally define the nature and types of investments in which a managed fund can invest and provide for specified procedures regarding further investment in and redemption from the particular fund.

Whilst investments in managed investment funds can achieve investment diversification, these investments can also subject the Company to a concentration of risk in one company or investment strategy. Because the investments in managed investment funds can only be redeemed or transferred in accordance with the terms of the offering of the particular fund, generally weekly, monthly, or quarterly, the ability of the Company to realize such investments may be restricted.

(Expressed in Bermuda Dollars)

4. Time Deposit and Financial Assets (continued)

The investment portfolio is monitored by the Investment Committee and is subject to investment guidelines approved by the Board of Directors.

The maturity profile of fixed maturity securities, comprising US Government debt, categorized at fair value through profit or loss, at their carrying value as at the Statement of Financial Position date is as follows:

	December 31	
	2020	**2019**
Due less than one year	**$ 713,978**	$ 901,640
Due from one through five years	**877,946**	464,518
Due from six through 10 years	**–**	229,748
	$ 1,591,924	$ 1,595,906

For managed funds the Company's largest concentration in any one investee is 33.25% (2019 – 26.76%).

Fair Value Measurement

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical instruments.

Level 2 – Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc.) and inputs that are derived from or corroborated by observable market data. Most debt securities are classified within Level 2.

(Expressed in Bermuda Dollars)

4. Time Deposit and Financial Assets (continued)

Level 3 – Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In making the assessment, the Company considers factors specific to the asset or liability and such an assessment will involve significant management judgment. Because of the inherent uncertainty in the valuation of these Level 3 investments, fair values of such investments may differ from the values that would have been used had a ready market for these investments existed, and the differences could be material.

The following table presents the Company's fair value hierarchy for those assets measured at fair value and for which fair values are disclosed as of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Managed funds	$ 464,578	$ 9,512,362	$ –	$ 9,976,940
US Government bonds	1,591,924	–	–	1,591,924
Corporate Bonds	–	587,535	–	587,535
Preferred Shares	54,745		–	54,745
	$ 2,111,247	$ 10,099,897	$ –	$ 12,211,144
Assets for which fair values are disclosed				
Amortized cost	$ –	$ 1,026,682	$ –	$ 1,026,682
Total	$ 2,111,247	$ 11,126,579	$ –	$ 13,237,826

There were no transfers between Level 1, Level 2 and Level 3 during the year.

(Expressed in Bermuda Dollars)

4. Time Deposit and Financial Assets (continued)

The following table presents the Company's fair value hierarchy for those assets measured at fair value and for which fair values are disclosed as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Managed funds	$ 385,440	$ 9,231,455	$ –	$ 9,616,895
US Government bonds	1,595,906	–	–	1,595,906
	$ 1,981,346	$ 9,231,455	$ –	$ 11,212,801
Assets for which fair values are disclosed				
Amortized cost	$ –	$ 1,284,476	$ –	$ 1,284,476
Total	$ 1,981,346	$ 10,515,931	$ –	$ 12,497,277

Financial Assets in Level 1

The fair value of investments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These investments are included in Level 1. Investments included in Level 1 comprise primarily domestic and foreign quoted equity shares and managed funds.

(b) Financial Assets in Level 2

The fair value of investments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates.

4. Time Deposit and Financial Assets (continued)

Specific valuation techniques include market standard valuation methodologies, which include discounted cash flow analysis, consensus pricing from various broker dealers that are typically the market makers, or other similar techniques. The assumptions and valuation inputs in applying these market standard valuation methodologies are determined primarily using observable market inputs, which include, but are not limited to, benchmark yields, reported trades of identical or similar instruments, broker-dealer quotes, issuer spreads, bid prices, and reference data including market research publications. In limited circumstances, non-binding broker quotes are used. If all significant inputs required to fair value an investment are observable, the investment is included in Level 2. Investments included in Level 2 comprise primarily corporate debt securities and managed funds.

Fair values of the Company's interests in unquoted managed fund investments are based upon the Net Asset Values of the underlying investment funds as reported by the investment managers, or their independent administrators. The Company's ability to redeem its managed fund investments at the reported net asset value per share (or its equivalent) determines whether the managed fund investment is categorized within Level 2 or Level 3 of the fair value hierarchy. If the managed fund can be redeemed within a time period of 3 months with no gates or other redemption restrictions it is classified within Level 2. Otherwise the managed fund is classified within Level 3.

The following table provides a summary of the changes in fair value of the Company's Level 3 financial assets (and liabilities) for the year ended December 31, 2019:

	Managed Funds
Beginning balance at January 1, 2019	$ 867,323
Movement in unrealized gains (losses)	44,848
Purchases and issuances	–
Transfers to Level 2	(912,531)
Ending balance at December 31, 2019	$ –
Total gains (losses) for the year included in income on Level 3 assets (recognized in investment income)	$ 45,208

(Expressed in Bermuda Dollars)

4. Time Deposit and Financial Assets (continued)

Investment Income

	2020	2019
Dividend and interest income (net of amortization)	**$ 149,344**	$ 205,652
Net realized gains (losses) on sale of investments	**52,147**	59,342
Net unrealized gains (losses) on investments	**633,185**	929,974
Bond amortization	**(1,452)**	9,102
Management fees	**(69,218)**	(66,561)
	$ 764,006	$ 1,137,509

5. Outstanding Losses and Loss Expenses

The establishment of the provision for outstanding losses and loss adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims and claim severity and frequency patterns, depending on the business assumed.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's management and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Consequently, the establishment of the provision for outstanding losses and loss adjustment expenses, relies on the judgment and opinion of a large number or individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimate made.

(Expressed in Bermuda Dollars)

5. Outstanding Losses and Loss Expenses (continued)

The Company provides a property catastrophe reinsurance program covering the deductible layer for various insurance companies related through common control.

Outstanding losses and loss expenses include reserves for reported unpaid losses and loss expense incurred but not reported. Movements in insurance liabilities are as follows:

	2020			2019		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Loss reserves						
Notified claims	$ –	$ –	$ –	$ 233,132	$ –	$ 233,132
Incurred but not reported	–	–	–	–	–	–
Total at beginning of year				233,132	–	233,132
Movements during the year						
Claims incurred – current year	–	–	–	3,000,000	–	3,000,000
Claims incurred – prior year	–	–	–	–	–	–
Total claims incurred	–	–	–	3,000,000	–	3,000,000
Claims settled – current year	–	–	–	3,000,000	–	3,000,000
Claims settled – prior year	–	–	–	233,132	–	233,132
Total at end of year	–	–	–	–	–	–
To be						
Notified claims	–	–	–	–	–	–
Incurred but not reported	–	–	–	–	–	–
Total at end of year	$ –	$ –	$ –	$ –	$ –	$ –

6. Risk Management and Financial Instruments

The activities of the Company involve the use of insurance contracts and financial instruments. As such, the Company is exposed to insurance risks and financial risks. This note presents information about the Company's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

6. Risk Management and Financial Instruments

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company is also guided by the risk management framework of its Parent. The Board and the Company's parent have established an Investment Management Committee, Risk Oversight Committee and Audit Committee who are responsible for developing and monitoring the Company's risk management policies. The committees report regularly to the Board of Directors on their activities.

The risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee and Risk Oversight Committee of the Parent are standing committees of the Board of Directors and assist the Board in fulfilling its oversight responsibilities relating to the financial reporting process, internal accounting and financial controls, audit and risk review process, risk assessment and risk management and compliance with legal and regulatory requirements. The Audit Committee, Risk Oversight Committee and Investment Management Committee meet at least three times per annum and report to the Board on their performance with respect to their respective terms of reference.

The principles used by the Company in managing its insurance risks are set out below:

Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

6. Risk Management and Financial Instruments (continued)

The Company provides a property catastrophe reinsurance program covering the deductible layer for various insurance companies related through common control. The Company's maximum exposure is limited to $3 million per occurrence per geographic region, except for BVI where the exposure is $4 million. Property catastrophe reinsurance covers unpredictable events such as hurricanes, windstorms, hailstorms, earthquakes, fires, industrial explosions, freezes, floods and other man-made or natural disasters. Because the Company has large aggregate exposures to these risks, the Company expects that its claims experience will be characterized by relatively low frequency and high severity claims. The occurrence of claims from catastrophic events is likely to result in substantial volatility in the Company's financial results for any particular period. The Company endeavors to manage its exposures to catastrophic events by limiting the amount of its exposure in each geographic zone. The geographical zones include Bermuda, the Cayman Islands, British Virgin Islands and the Bahamas.

Financial Risk

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies of the Company are discussed below:

6. Risk Management and Financial Instruments (continued)

Credit Risk

Credit risk is the risk that a counter-party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company's maximum credit risk exposure is the carrying value of assets less any provisions for irrecoverable amounts. The Company is exposed to credit risk in the following areas:

Cash and Investments

Investment asset allocation is determined by the Company's investment manager who manages the distribution of the assets to achieve the Company's investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored by the Company's Board of Directors and the Parent's Investment Committee. Details of concentrations of cash and cash equivalents and investments are disclosed in Notes 3 and 4.

Related-Party Receivables

Amounts due from related parties are assessed and monitored on a monthly basis for any indication of impairment. As at December 31, 2020, all amounts are considered to be collectible.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company is exposed to daily calls on its available cash resources for the payment of policy benefits and operating expenses. In order to manage liquidity, management seeks to maintain levels of cash and cash equivalents sufficient to meet its liabilities when due, under normal and stressed conditions without incurring unacceptable losses or risking damage to the Company's reputation.

All financial assets and financial liabilities are classified on the statement of financial position as current with the exception of amounts due from/to related companies which are not anticipated to be received/paid in the next 12 months. All financial assets and liabilities which can be liquidated/paid within 12 months are considered current.

6. Risk Management and Financial Instruments (continued)

Market Risk

Market risk is the risk that changes in market prices such as equity prices, interest rates and foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

At the balance sheet date, management does not consider the Company to have any significant exposure to market risks.

7. Capital Management and Statutory Requirements

Capital Management

The Company's capital base is structured to exceed regulatory and internal capital targets while maintaining an effective capital structure. The Board of Directors is responsible for devising the Company's capital plan with management responsible for the implementation of the plan. The policy is designed to ensure that adequate capital is maintained to provide the flexibility necessary to support the risks associated with the business and to provide returns to the shareholder. The policy is also designed to provide an appropriate level of risk management over capital adequacy risk, which is defined as the risk that capital is not or will not be sufficient to withstand adverse economic conditions and to maintain financial strength.

The Company is required by the Bermuda Monetary Authority to maintain certain minimum levels of capital and surplus. At the balance sheet date the Company has met these requirements.

The Company's capital base consists of common shares, contributed surplus and retained earnings.

Share Capital

The Company's authorized and issued share capital consists of 120,000 ordinary shares with a par value of $1 each.

6. Risk Management and Financial Instruments (continued)

Contributed Surplus

Contributed surplus consists of amounts contributed in cash to the Company by the shareholder in addition to subscriptions for share capital.

Statutory Requirements

The Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of the Insurance Act, 1978 of Bermuda.

Each year the Company is required to file with the Bermuda Monetary Authority (the Authority) a capital and solvency return within four months of its relevant financial year end (unless specifically extended).

7. Capital Management and Statutory Requirements

The prescribed form of capital and solvency return comprises the insurer's Bermuda Solvency Capital Requirement (BSCR) model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities.

As a Class 3A insurer, the Company is required to maintain available statutory capital and surplus in an amount that is equal to or exceeds the target capital levels based on enhanced capital requirements (ECR) calculated using the BSCR model. The BSCR model is a risk-based capital model introduced by the Authority that measures risk and determines ECR and a target capital level (defined as 120% of the ECR) based on the Company's statutory financial statements. In circumstances where the Authority concludes that the company's risk profile deviates significantly from the assumptions underlying the ECR or the Company's assessment of its management policies and practices, it may issue an order requiring that the Company adjust its ECR.

During the year ended and as of December 31, 2020, Coralisle Re Ltd (formerly Colonial Re Ltd.) met the target capital level required under the BSCR.

7. Capital Management and Statutory Requirements (continued)

The Insurance Act mandates certain actions and filings with the Authority if the Company fails to meet and maintain its ECR or solvency margin, including the filing of a written report detailing the circumstances giving rise to the failure and the manner and time within which the insurer intends to rectify the failure. The Company is prohibited from declaring or paying a dividend if its statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause such breach.

At December 31, 2020, the Company's ECR was $10,679,000 (2019 – $7,000,000).

The Company is required by its license to maintain capital and surplus greater than a minimum statutory amount determined as the greater of a percentage of outstanding losses or a given fraction of net written premiums. At December 31, 2020, the Company is required to maintain a minimum margin of solvency of $2,578,000 (2019 – $1,750,000). Actual statutory capital and surplus is $16,646,000 (2019 – $11,888,941).

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents and time deposits. Certain categories of assets do not qualify as relevant assets under the statute. The relevant liabilities are accounts payable and accrued expenses.

At December 31, 2020, the Company was required to maintain relevant assets of at least $554,000 (2019 – $1,284,000). At that date, relevant assets were $13,588,000 (2019 – $12,826,116) and the minimum liquidity ratio was therefore met.

(Expressed in Bermuda Dollars)

8. Related-Party Transactions

All premiums earned are from related parties, that is fellow subsidiaries of the Coralisle Group Limited (formerly Colonial Group International Limited) group of companies.

The amounts due from companies related through common control comprise the following:

	2020	2019
Gibbons Management Services Limited	**$ 3,796,220**	$ 756,505
	$ 3,796,220	$ 756,505

The amounts due to companies related through common control comprise the following:

	2020	2019
Coralisle Insurance Company Ltd (formerly Colonial Insurance Company Limited)	**$ 720,885**	$ 1,698,635
	$ 720,885	$ 1,698,635

These balances are unsecured and repayable on demand. The Coralisle Insurance Company Ltd (formerly Colonial Insurance Company Limited) balance bears interest at 3% (2019 – 3%) per annum and the Gibbons Management Services Limited balance bears interest at 5% (2019 – 5%). Interest of $25,854 (2019 – $78,374) has been earned during the year from related companies.

During the year, the Company used Clarien Bank Limited and its wholly owned subsidiaries (Clarien) for certain banking, investment custodian, and investment management services. The Company and Clarien are related by common control.

At December 31, 2020, the Company had 7 positions (2019 – 6) with an aggregate carrying value of $4,374,685 (2019 – $4,560,520) in investment funds managed by Clarien Bank Limited.

9. COVID-19

The Company's results and operations have been and may continue to be impacted by the COVID-19 pandemic and the recent economic environment. The effects include but are not limited to significant volatility in equity markets, decline in interest rates, increase in credit risk, strain on alternative long duration asset prices, fluctuations in the frequency of insurance claims, persistency and redemptions, and disruption of business operations. The breadth and depth of these events and their duration contribute additional uncertainty around estimates used in determining the carrying value of certain assets and liabilities included in these Financial Statements. Management has considered the effect of COVID-19 to the extent possible in its estimates and assumptions.

10. Subsequent Events

The Company has completed its subsequent events evaluation for the period subsequent to the statement of financial position through April 29, 2021, the date the financial statements were available to be issued.

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