GENEVA RE LTD.

Financial Statements

For the year ended December 31, 2020
and the period ended May 31, 2019
(Date of Incorporation)
to December 31, 2019

GENEVA RE LTD.

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December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Geneva Re Ltd.

We have audited the accompanying financial statements of Geneva Re Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, changes in shareholder's equity, and cash flows for the year ended December 31, 2020, and for the period from May 31, 2019 (Date of Incorporation) to December 31, 2019 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 U.S. generally accepted accounting principles; 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.

Auditor's 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 Geneva Re Ltd. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the year ended December 31, 2020 and for the period from May 31, 2019 (Date of Incorporation) to December 31, 2019 in accordance with U.S. generally accepted accounting principles.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 12, 2021

GENEVA RE LTD.

Balance sheets

As of December 31, 2020 and 2019
(Expressed in thousands of U.S. dollars)

		2020		2019
Assets				
Fixed income securities (Notes 3, 4 and 7)	$	210,127	$	93,189
Cash and cash equivalents (Note 4, 5 and 7)		5,068		2,321
Restricted cash and cash equivalents (Note 4, 6 and 7)		8,197		1,417
Accrued investment income		939		587
Premiums receivable (Note 8 and 10)		101,993		25,296
Deferred acquisition costs (Note 10)		36,622		10,911
Deferred tax assets (Note 9)		–		1,140
Other assets (Note 10)		467		198
Total assets	$	363,413	$	135,059
Liabilities and shareholder's equity				
Liabilities				
Reserves for losses and loss expenses (Note 8 and 10)	$	43,121	$	3,096
Unearned premiums (Note 10)		114,244		32,650
Reinsurance balances payable		568		–
Accounts payable and accrued expenses		2,572		694
Investments balances payable		1,305		–
Amount due to affiliates (Note 10)		992		2,907
Deferred tax liabilities (Note 9)		128		–
Total liabilities		162,930		39,347
Shareholder's equity				
Share capital (Note 11)		120		120
Additional paid-in capital (Note 12)		199,880		99,880
Accumulated other comprehensive income (loss)		3,083		(127)
Accumulated deficit		(2,600)		(4,161)
Total shareholder's equity		200,483		95,712
Total liabilities, and shareholder's equity	$	363,413	$	135,059

Director

Director

See accompanying notes to the financial statements.

GENEVA RE LTD.

Statements of operations

For the year ended December 31, 2020 and for the period May 31, 2019 (date of incorporation) to December 31, 2019
(Expressed in thousands of U.S. dollars)

		2020		2019
Revenues				
Gross premiums written (Note 10)	$	147,957	$	38,060
Change in unearned premiums		(81,594)		(32,650)
Premiums earned (Note 10)		66,363		5,410
Net investment income (Note 3 and 10)		3,911		1,008
Total revenues		70,274		6,418
Expenses				
Losses and loss expenses (Notes 8 and 10)		(41,257)		(3,096)
Acquisition costs (Note 10)		(21,102)		(1,853)
General and administrative expenses (Note 10)		(6,036)		(6,736)
Total expenses		(68,395)		(11,685)
Net foreign exchange gains		97		–
Net income (loss) before tax		1,976		(5,267)
Income tax (expense) benefit (Note 9)		(415)		1,106
Net income (loss) after tax		1,561		(4,161)
Other comprehensive income (loss), net of tax				
Net change in fair value of fixed income securities, net of tax of $853 (2019:($34))		3,210		(127)
Total other comprehensive income (loss), net of tax		3,210		(127)
Total comprehensive income (loss) attributable to common shareholder	$	4,771	$	(4,288)

See accompanying notes to the financial statements.

GENEVA RE LTD.

Statements of changes in shareholder's equity

For the year ended December 31, 2020 and for the period May 31, 2019 (date of incorporation) to December 31, 2019
(Expressed in thousands of U.S. dollars)

		2020		2019
Share Capital				
Balance, beginning of year	$	120	$	–
Issuance of common shares		–		120
Balance, end of year		120		120
Additional paid-in capital				
Balance, beginning of year		99,880		–
Contribution		100,000		99,880
Balance, end of year		199,880		99,880
Accumulated other comprehensive income (loss), net of tax				
Balance, beginning of year	$	(127)	$	–
Unrealized gains (losses) arising on fixed income securities during the period		4,625		(112)
Net realized gains recorded in net income		(1,415)		(15)
Balance, end of year		3,083		(127)
Accumulated deficit				
Balance, beginning of year	$	(4,161)	$	–
Net income (loss)		1,561		(4,161)
Balance, end of year		(2,600)		(4,161)
Total shareholder's equity	$	200,483	$	95,712

See accompanying notes to the financial statements.

GENEVA RE LTD.

Statements of cash flow

For the year ended December 31, 2020 and for the period May 31, 2019 (date of incorporation) to December 31, 2019
(Expressed in thousands of U.S. dollars)

	2020	2019
Operating activities		
Net income (loss) after tax	$ 1,561	$ (4,161)
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net amortization of fixed interest securities	2,129	215
Net realized gains on sale of fixed income securities	(1,415)	(15)
Net changes in assets and liabilities:		
Accrued investment income	(352)	(587)
Premiums receivable	(76,697)	(25,296)
Deferred acquisition costs	(25,711)	(10,911)
Deferred tax assets	1,140	(1,106)
Other assets	(269)	(198)
Reserves for losses and loss expenses	40,025	3,096
Unearned premiums	81,594	32,650
Reinsurance balances payable	568	–
Accounts payable and accrued expenses	1,878	694
Amounts due to affiliates	(1,916)	2,907
Deferred tax liabilities	(725)	–
Net cash provided by (used in) operating activities	21,810	(2,712)
Investing activities		
Purchase of investments	(257,435)	(102,700)
Proceeds from the sale of investments	143,847	9,150
Change in investments balances payable	1,305	–
Net cash used in investing activities	(112,283)	(93,550)
Financing activities		
Issuance of common stock	–	120
Additional paid-in capital	100,000	99,880
Net cash provided by financing activities	100,000	100,000
Net increase in cash, restricted cash, and cash equivalents	9,527	3,738
Cash, restricted cash, and cash equivalents, beginning of year	3,738	–
Cash, restricted cash, and cash equivalents, end of year	13,265	3,738
Cash and cash equivalents comprise the following:		
Cash	–	110
Cash equivalents	5,068	2,211
Restricted cash and cash equivalents	8,197	1,417
	$ 13,265	$ 3,738

See accompanying notes to the financial statements.

1. Nature of operations

Geneva Re Ltd. (the "Company") was incorporated as an exempted company under the laws of Bermuda on May 31, 2019 and writes reinsurance on a global basis. The Company is registered as a Class 3A insurer under the Insurance Act of 1978 and related regulations of Bermuda (the "Insurance Act") and commenced operations on July 1, 2019. The Company's operations include reinsurance of property, casualty and specialty products.

The Company is a wholly owned subsidiary of Geneva Re Partners, LLC ("Holdings"), a Delaware limited liability company incorporated on May 15, 2019.

Holdings is a joint venture formed between Ryan Specialty Group, LLC ("RSG"), a Delaware limited liability company, and certain of its shareholders, and Nationwide Mutual Insurance Company ("Nationwide"), an Ohio mutual insurance company. The Company acts as an affiliated reinsurer, providing reinsurance exclusively to certain insurance companies of Nationwide.

2. Significant accounting policies

Basis of presentation

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

Given the uncertainties associated with COVID-19 and its impact, and the limited information upon which the Company's current estimates have been made, our preliminary reserves and the underlying estimated level of claim losses and costs arising from COVID-19 may materially change. The Company expects that uncertainty and volatility in financial markets will continue to impact the value of the investments. The scope, duration and magnitude of the direct and indirect effects of the COVID-19 pandemic are changing rapidly and are difficult to anticipate. As with others in the industry, the Company is subject to economic factors such as interest rates, foreign exchange rates, underwriting events, regulation, tax policy changes, political risks and other market risks that can impact our strategy, operations, and results.

Reporting currency

The financial information is reported in United States dollars ("U.S. dollars" or "$").

Use of estimates

The preparation of these financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and the 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 from those estimates. The most significant estimates reflected in the financial statements include, but are not limited to, reserves for losses and loss expenses and estimates of written and earned premiums.

Cash and cash equivalents

Cash and cash equivalents consist of cash held in banks and other short-term, highly liquid investments with original maturity dates of ninety days or less.

2. Significant accounting policies (continued)

Restricted cash

Restricted cash represents cash and cash equivalents that the Company is a) holding for the benefit of the insured and is legally or contractually restricted as to withdrawal or usage for general Company purposes; and b) not replaceable without approval of the insured by another type of asset other than cash or cash equivalents, under the terms of the Company's contractual reinsurance arrangements.

Investments

The fixed income securities portfolio comprises securities issued by governments and government agencies, corporate bonds, mortgage and other asset-backed securities. Investments in fixed income securities have been classified as available-for-sale and are reported at estimated fair value in the Balance Sheets.

Realized and unrealized gains or losses on fixed income securities are determined by the specific identification method. For securities classified as available for sale, unrealized gains or losses are included in Accumulated Other Comprehensive Income (Loss) ("AOCI"), a component of the shareholder's equity until the investment is sold or impaired. Realized gains and losses on sale and write-downs to reflect impairments, are included in the Statements of Operations.

Net investment income

Net investment income includes amounts received and accrued in respect of periodic interest ("coupons") payable to the Company by the issuer of fixed income securities, and interest credited on cash and cash equivalents. It also includes amortisation of premium and accretion of discount in respect of fixed income securities. Investment management and custody fees are charged against net investment income reported in the Statements of Operations. Investment transactions are recorded on a trade date basis.

Premiums and acquisition costs

Premiums written are recorded on inception of the policy. Premiums written include estimates based on information received from insureds, brokers and cedants, and any subsequent differences arising on such estimates are recorded as premiums written in the period they are determined. Premiums written are earned over the exposure period in proportion to the period of risk covered. Unearned premiums represent the portion of premiums written that relate to the remaining term of the underlying policies. Reinstatement premiums are recognised as written and earned after the occurrence of a loss and are recorded in accordance with the contract terms based upon management's estimate of losses and loss expenses.

Acquisition costs are directly related to the acquisition of insurance premiums and are deferred and amortized in line with the related premiums. The Company only defers acquisition costs incurred that are directly related to the successful acquisition of new or renewal insurance contracts, including commissions to agents, brokers and premium taxes. All other acquisition related expenses including indirect costs are expensed as incurred. To the extent that future policy revenues on existing policies are not adequate to cover related costs and expenses, deferred policy acquisition costs are charged to earnings.

The Company evaluates premium deficiency and the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment return is greater than expected future loss and loss adjustment expenses and acquisition costs.

2. Significant accounting policies (continued)

Reserves for losses and loss expenses

The liability for losses and loss expenses includes reserves for unpaid reported losses and for losses incurred but not reported. The reserves for losses and loss expenses are established by management based on reports from insureds, brokers, and ceding companies and the application of generally accepted actuarial techniques and represents the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company as incurred. The Company has performed an detailed review of its policies and exposures in determining its preliminary estimates for reserves associated with COVID -19. The Company continues to evaluate industry trends and potential exposure associated with the ongoing COVID-19 pandemic and expects significant industry losses to emerge over time. There is significant uncertainty associated with these estimates. A longer or more severe recession will increase the probability of losses. Potential future legislative, regulatory, and judicial actions may also cause significant uncertainty with respect to policy coverage and other issues. Because this is an evolving and highly uncertain situation, the Company's current estimates of COVID -19 losses may change in the future, perhaps materially.

The estimation of unpaid claim liabilities at any given point in time is subject to a high degree of uncertainty for a number of reasons. Inherent in the estimates of ultimate losses and loss expenses are expected trends in claim severity and frequency which may vary significantly as claims are settled. A significant amount of time can lapse between the assumption of risk, the occurrence of a loss event, the reporting of the event to an insurance or reinsurance company and the ultimate payment of the claim on the loss event. As a relatively new operation, the Company has limited loss history of its own and therefore uses industry data in the estimation of ultimate losses. To the extent that the trend of the Company's loss development compared to the industry changes in any period, it is likely to have an impact on the estimate of ultimate liabilities. Ultimate losses and loss expenses may differ significantly from the amount recorded in the financial statements. These estimates are reviewed regularly and as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are recorded in losses and loss expenses in the periods in which they are determined.

Premiums receivable

Premiums receivable includes amounts receivable from insureds which represent premiums that are both currently due and amounts not yet due on reinsurance policies, these amounts are net of related acquisitions costs for which there is a right of offset. Premiums for reinsurance policies generally become due over the period of coverage based on the policy terms. Contract periods can be several years in length with premiums received in annual or quarterly instalments.

The Company monitors the credit risk associated with premiums receivable, taking into consideration the fact that in certain instances credit risk may be reduced by the Company's right to offset loss obligations against premiums receivable. Amounts deemed uncollectible are charged to net income in the period they are determined. Changes in the estimate of reinsurance premiums written will also result in an adjustment to premiums receivable in the period they are determined.

Income taxes

Income taxes have been provided for those operations that are subject to income taxes based on enacted tax laws and rates enacted in those jurisdictions. Current and deferred taxes are charged or credited to net income, with the exception of deferred tax on amounts recorded in AOCI.

2. Significant accounting policies (continued)

Income taxes (continued)

Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the financial statements and the tax basis of the Company’s assets and liabilities. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date. Uncertain tax positions are recognised when deemed more likely than not of being sustained upon examination by tax authorities. Changes in recognition or measurement are recognised in the period in which the change occurs.

A valuation allowance against deferred tax assets is recorded if management deem it is more likely than not that all or some portion of the benefits related to the deferred tax assets will not be realized.

Foreign exchange

The Company’s functional currency is the U.S. dollar. Transactions in foreign currencies are translated in U.S. dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities in foreign currencies are re-measured at the exchange rates in effect at the reporting date. Foreign exchange gains and losses are included in the Statements of Operations.

Recent accounting pronouncements

Recently issued but not yet adopted

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which requires loans, receivables and available-for-sale debt securities to record credit losses through an allowance for credit losses account. The update introduces a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new credit loss model, the Company will be required to recognise an allowance for its expected credit losses on certain financial assets including trade receivables, debt instruments not measured at fair value, and reinsurance receivables. Available-for-sale debt securities will record credit losses through an allowance for credit losses, which will be limited to the amount by which fair value is below amortized cost. The Company does not expect the ASU to have a material impact on the Balance Sheets, Statements of Operations, cash flows or disclosures. The standard update is effective for annual periods beginning after December 15, 2022.

In December 2019, the FASB issued ASU 2019-12 which removes certain exceptions for (1) recognizing deferred taxes for investments, (2) performing intraperiod tax allocation, and (3) calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating income taxes to a legal entity that is not subject to income taxes. The amendments are effective for fiscal years beginning after December 15, 2021. The Company is currently assessing the impact of adopting this guidance however we do not expect that the adoption will have a material impact on the financial statements and disclosures.

(Expressed in thousands of U.S. dollars)

3. Investments

As at December 31, 2020, the Company's investments are managed by Nationwide Asset Management LLC, a related party, through an investment management agreement. The Company monitors the activity and performance of the investment manager on a monthly basis.

a) Fixed income securities

The following table shows the carrying value, fair value and related unrealized gains and losses of the fixed income securities:

	As at December 31, 2020			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
U.S. treasuries	$ 55,389	$ 650	$ (128)	$ 55,911
Corporate bonds	48,678	2,015	(38)	50,655
Asset-backed securities	11,446	40	(54)	11,432
Agency residential mortgage back securities	69,054	898	(10)	69,942
Non-agency residential mortgage back securities	11,948	315	(5)	12,258
Commercial mortgage-backed securities	7,405	178	(10)	7,573
Municipal securities	2,305	51	–	2,356
Total	$ 206,225	$ 4,147	$ (245)	$ 210,127

	As at December 31, 2019			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
U.S. treasuries	$ 34,816	$ 11	$ (191)	$ 34,636
Corporate bonds	21,974	86	(11)	22,049
Asset-backed securities	2,972	–	(7)	2,965
Agency residential mortgage back securities	26,196	32	(4)	26,224
Non-agency residential mortgage back securities	5,306	–	(47)	5,259
Commercial mortgage-backed securities	2,086	–	(30)	2,056
Total	$ 93,350	$ 129	$ (290)	$ 93,189

Review of the fixed income securities is performed on a regular basis to consider concentration, credit quality and compliance with established guidelines. The composition of the fair values of fixed income securities by credit rating is as follows:

	2020		2019	
	Fair value	%	Fair value	%
AAA	$ 147,515	70%	$ 65,715	71%
AA	9,855	5%	5,067	5%
A	18,289	9%	9,361	10%
BBB	33,648	16%	13,046	14%
BB	820	0%	–	0%
Total	$ 210,127	100%	$ 93,189	100%

Ratings from globally recognized rating agencies are used.

(Expressed in thousands of U.S. dollars)

3. Investments (continued)

a) Fixed income securities (continued)

The contractual maturities of fixed income securities are listed in the following table:

	2020		2019	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$ –	$ –	$ 6,988	$ 6,998
Due after one year through five years	65,912	67,686	28,484	28,470
Due after five year through ten years	44,204	45,065	24,681	24,567
Due after ten years	96,109	97,376	33,197	33,154
Total	$ 206,225	$ 210,127	$ 93,350	$ 93,189

Expected maturities may differ from contractual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Additionally, lenders may have the right to put the securities back to the borrower.

b) Pledged investments

At December 31, 2020, $26,760 (2019 - $8,472) of available-for-sale fixed income securities were on deposit with a custodian in respect of the Company's trust account. The trust agreement was entered into to support the business ceded by Nationwide and the amount held in trust is based on Nationwide's net exposure to the Company.

c) Net investment income

The components of net investment income are as follows:

	2020	2019
Net interest income	$ 4,853	$ 1,240
Net amortisation of fixed income securities	(2,129)	(215)
Net realized gains on fixed income securities	1,415	15
Investment expenses	(228)	(32)
Net investment income	$ 3,911	$ 1,008

4. Fair value measurements

Fair value hierarchy

FASB ASC 820-10, Fair Value Measurements and Disclosures, defines fair value, establishes a consistent framework for measuring fair value and requires disclosures about fair value measurements. The standard requires the Company to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value.

FASB ASC 820-10 specifies a hierarchy of fair value inputs based on whether the inputs are observable or unobservable. Observable inputs are developed using independently sourced market data and reflect market participant assumptions, while unobservable inputs reflect the Company's market assumptions in the absence of observable market information. The fair value hierarchy is as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets. The fair value is determined by multiplying the quoted price by the quantity held by the Company.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices (e.g. interest rates, yield curves, prepayment spreads, default rate, etc.) for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability or can be corroborated by observable market data.
- Level 3: Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement. Significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

As required under the fair value hierarchy, the Company considers relevant and observable market inputs in its valuations where possible. The Company's policy with respect to transfers between levels of the fair value hierarchy is to recognise transfers into and out of each level as of the beginning of the reporting period.

Determination of fair value

The following section describes the valuation methodologies used by the Company to measure assets and liabilities at fair value, including an indication of the level within the fair value hierarchy in which each asset or liability is generally classified.

Fixed income securities

The Company's fixed income securities portfolio is managed by a related party investment manager with oversight from both the Company's Chief Financial Officer and the Board of Directors. Fair values for all securities in the fixed income investments portfolios are independently provided by the investment custodian and investment manager, each of which utilise internationally recognised independent pricing services.

For determining the fair value of securities that are not actively traded, in general, pricing services use “matrix pricing”. The corporate pricing matrix was developed using publicly and privately available spreads for privately placed corporate securities with varying weighted average lives and credit quality ratings. The weighted average life and credit quality rating of a fixed maturity security to be priced using this matrix are important inputs into the model and are used to determine a corresponding spread that is added to the appropriate U.S. Treasury yield to create an estimated market yield for that security. The estimated market yield and other relevant factors are then used to estimate the fair value of the particular security.

(Expressed in thousands of U.S. dollars)

4. Fair value measurements (continued)

Fixed income securities (continued)

The following describes the techniques generally used to determine the fair value of the Company's fixed income securities by asset class.

- U.S. treasuries are bonds issued by the U.S. government. The significant inputs used to determine the fair value of these securities are based on quoted prices in active markets for identical assets and are therefore classified within Level 1.
- Agency residential mortgage backed securities consist of securities issued by U.S. government sponsored agencies such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation backed by pools of loans with underlying collateral of residential mortgage loans. The significant inputs used to determine the fair value of these securities are based on quoted prices in active markets for identical assets. When not available, the fair values of the securities include the spread above the risk-free yield curve, benchmark yields, broker-dealer quotes, prepayment spreads, collateral performance and default rates. These securities may be rated Level 1 or Level 2.
- Corporate bonds consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. When available, significant inputs are used to determine the fair value of these securities and are based on quoted prices in active markets for identical assets. When not available, the fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. The Company classified the fair values of these securities within Level 2.
- Non-agency residential mortgage backed securities, commercial mortgage backed securities and asset-backed securities consist of only investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment spreads, collateral performance and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Municipal securities consist of bonds issued by a state, municipality or county to finance capital expenditures. The significant inputs used to determine the fair value of these securities include benchmark yields, reported trades, broker-dealer quotes and other industry and market indicators. The fair value of these securities are classified as Level 2.

The following table presents the financial instruments measured at fair value on a recurring basis as at December 31, 2020 and 2019:

	As at December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash equivalents	$ 5,068	$ –	$ –	$ 5,068
Restricted cash equivalents	8,197	–	–	8,197
Fixed income securities				
U.S treasuries	55,911	–	–	55,911
Corporate bonds	–	50,655	–	50,655
Asset-backed securities	–	11,432	–	11,432
Agency residential mortgage backed securities	–	69,942	–	69,942
Non-agency residential mortgage backed securities	–	12,258	–	12,258
Commercial mortgage-backed securities	–	7,573	–	7,573
Municipal securities	–	2,356	–	2,356
Total fixed income securities	55,911	154,216	–	210,127
Total	$ 69,176	$ 154,216	$ –	$ 223,392

(Expressed in thousands of U.S. dollars)

4. Fair value measurements (continued)

Fixed income securities (continued)

	As at December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash equivalents	$ 2,211	$ –	$ –	$ 2,211
Restricted cash equivalents	1,417	–	–	1,417
Fixed income securities				
U.S treasuries	34,636	–	–	34,636
Corporate bonds	–	22,049	–	22,049
Asset-backed securities	–	2,966	–	2,966
Agency residential mortgage backed securities	26,224	–	–	26,224
Non-agency residential mortgage backed securities	–	5,259	–	5,259
Commercial mortgage-backed securities	–	2,056	–	2,056
Total fixed income securities	60,860	32,329	–	93,189
Total	$ 64,488	$ 32,329	$ –	$ 96,817

5. Cash and cash equivalents

	2020	**2019**
Cash	$ –	$ 110
Cash equivalents	5,068	2,211
Total cash and cash equivalents	$ 5,068	$ 2,321

Due to the short-term nature of cash and cash equivalents, management believes the above noted carrying values approximate their fair value.

6. Restricted cash and cash equivalents

The Company is required to maintain certain levels of cash in a segregated trust account with the custodian. The Company's funds in trust support the reinsurance business written with the reinsured (Note 10).

The following table presents the restricted cash and cash equivalents as at December 31, 2020 and 2019:

	2020	**2019**
Trust account	$ 8,197	$ 1,417
Total restricted cash and cash equivalents	$ 8,197	$ 1,417

(Expressed in thousands of U.S. dollars)

7. Concentration of credit risk

As of December 31, 2020, cash and cash equivalents of $4,219 (2019: $2,211), restricted cash and cash equivalent of $8,197 (2019: $1,417) and fixed income securities of $210,127 (2019: $93,189) are held by one financial institution in the United States of America, and cash equivalents of $849 (2019: $Nil) and cash of $Nil (2019: $110) are held by one financial institution in Bermuda. Premiums receivable of $101,993 are due from certain insurance companies of Nationwide. Nationwide has a S&P and an A.M Best rating of A+ (2019: A+).

8. Reserves for losses and loss expense

The following table presents a reconciliation of the beginning and ending reserves for losses and loss expenses for the years ended December 31, 2020 and 2019.

	2020	2019
Balance at January 1	$ 3,096	$ –
Net losses and loss expenses incurred:		
Current year	41,291	3,096
Prior year	(34)	–
Total incurred	$ 41,257	$ 3,096
Net losses and loss expenses paid:		
Current year	1,101	–
Prior year	144	–
Net losses and loss expenses paid	$ 1,245	$ –
Foreign exchange and other	13	–
Balance at December 31	$ 43,121	$ 3,096

The reserves for losses and loss expenses include an amount determined from reported claims and estimates based on Company and industry statistics for losses incurred but not reported (“IBNR”) using a variety of actuarial methods.

The reserve amount for losses and loss expenses determined from reported claims are established by underlying carriers and third party administrators based on claim specific details, industry observations and expert judgement. The reserve amount for each claim represents the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by the underlying carrier.

The reserves for IBNR losses and loss expenses are established by management based on actuarially determined estimates of ultimate losses and loss expenses using various actuarial methods as well as the Company’s own growing loss experience, industry loss experience, estimates of pricing adequacy trends and management’s professional judgement. In some circumstances, due to the limited historical data available, reliance is placed upon benchmark data and a review of individual policies. Estimates are calculated at the lowest level line of business and for attritional, extreme and catastrophic claims, where appropriate.

8. Reserves for losses and loss expense (continued)

The principal actuarial methods, and associated key assumptions, used to perform the Company's loss reserve analysis include:

Initial expected loss and loss expense ratio

To estimate ultimate losses and loss expenses ("L&LE"), the Company multiplies earned premiums by an expected L&LE ratio. The expected L&LE ratio is determined using a combination of benchmark data, industry statistics, the business plan, and expert judgement.

Paid and incurred chain ladder

This method estimates ultimate L&LE by calculating past paid and incurred L&LE development factors and applying them to exposure periods with further expected paid or incurred L&LE development. The main underlying assumption of this method is that historical L&LE development patterns are indicative of future L&LE development patterns.

Paid and incurred Bornhuetter-Ferguson ("BF")

This method combines features of the chain ladder and initial Ultimate loss ratio ("ULR") methods by using both reported and paid L&LE as well as an a priori expected loss ratio to arrive at an ultimate L&LE estimate. The weighting between these two methods depends on the maturity of the business. This means that for a more recent year a greater weight is placed on the initial expected loss ratio, while for a more mature year a greater weight is placed on the L&LE development patterns.

Case-by case

Given the nature of the business written, some of the lines of business may consist of a small number of policies. Where appropriate, the L&LE reserves will be calculated explicitly for a particular contract using expert judgement and documented appropriately.

The Reserve Working Group reviews, challenges and recommends to the Company's Audit and Risk Committee, who ultimately recommends to the Board of Directors, the level of reserves required to meet the outstanding loss and loss expenses.

The reserve estimates contain an inherent level of uncertainty and actual results may vary, potentially significantly, from the estimates the Company has made. Reserves are reviewed on a quarterly basis and estimates are adjusted to reflect emerging claims experience.

(Expressed in thousands of U.S. dollars)

8. Reserves for losses and loss expense (continued)

a) Loss development tables

Property

Total losses and loss expenses incurred

	For the years ended December 31,		As of December 31, 2020
Accident year	**2019**	**2020**	**IBNR**
2019	$ 1,024	$ 1,069	$ 758
2020		20,887	16,842
	Total	$ 21,956	$ 17,600

Cumulative paid losses and loss expenses

	For the years ended December 31,	
Accident year	**2019**	**2020**
2019	$ –	$ 63
2020		898
	Total	$ 961
Total outstanding reserves for losses and loss expenses		$ 20,995

(Expressed in thousands of U.S. dollars)

8. Reserves for losses and loss expenses (continued)

a) Loss development tables (continued)

Casualty

Total losses and loss expenses incurred

	For the years ended December 31,		As of December 31, 2020
Accident year	**2019**	**2020**	**IBNR**
2019	$ 1,397	$ 1,260	$ 1,128
2020		18,070	17,758
Total		$ 19,330	$ 18,886

Cumulative paid losses and loss expenses

	For the years ended December 31,	
Accident year	**2019**	**2020**
2019	$ –	$ 159
2020		64
Total		$ 223
Foreign exchange effect		$ 13
Total outstanding reserves for losses and loss expenses		$ 19,120

(Expressed in thousands of U.S. dollars)

8. Reserves for losses and loss expenses (continued)

a) Loss development tables (continued)

Specialty

Total losses and loss expenses incurred

	For the years ended December 31,		As of December 31, 2020
Accident year	**2019**	**2020**	**IBNR**
2019	$ 675	$ 733	$ 716
2020		2,334	2,290
	Total	$ 3,067	3,006

Cumulative paid losses and loss expenses

	For the years ended December 31,	
Accident year	**2019**	**2020**
2019	$ –	$ 17
2020		44
	Total	$ 61
Total outstanding reserves for losses and loss expenses		$ 3,006

Due to the nature of retrocession coverage, claim-level detail is not readily available and it is not practicable to provide claims frequency information.

The Company's loss and loss expenses reserve analysis is based primarily on accident year data or report year data, depending on the coverage trigger underling a particular segment's exposure.

The information has been provided separately for each of the property, casualty and specialty lines in line with how the Company manages the business. No data has been omitted in providing this information on a segment basis.

(Expressed in thousands of U.S. dollars)

8. Reserves for losses and loss expenses (continued)

b) Reconciliation of loss and loss expense development information to the reserves for losses and loss expenses

The table below reconciles the loss and loss expense development information to the Company's reserves for losses and loss expenses as at December 31, 2020 and 2019:

	2020	2019
Reserves for losses and loss expenses		
Property	$ 17,600	$ 1,024
Casualty	18,886	1,397
Specialty	3,006	675
Total reserves for losses and loss expenses	$ 39,492	$ 3,096
Outstanding losses and loss expenses	3,629	–
Total liability for unpaid losses and loss expenses	$ 43,121	$ 3,096

Historical loss and loss expense duration

The following table presents the Company's historical average annual percentage payout of loss and loss expenses incurred, net of reinsurance by age as of December 31, 2020 and 2019.

December 31, 2020 Unaudited		December 31, 2019 Unaudited	
Year	2	Year	1
All lines	1.4%	All lines	0%

The Company commenced underwriting in 2019. As a result, the Company has $1,245 (2019: $nil) payouts to date.

(Expressed in thousands of U.S. dollars)

9. Taxation

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

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

The income tax (expense) benefit for the years ended December 31, 2020 and 2019 is as follows:

		2020		2019
Current tax expense	$	–	$	–
Deferred tax (expense) benefit		(415)		1,106
Income tax (expense) benefit	$	(415)	$	1,106

The net deferred tax (liabilities) assets balances as of December 31, 2020 and 2019 are made up of the following:

		2020		2019
Deferred tax assets				
Unearned premium	$	4,798	$	1,371
Discounts on reserves for losses and loss expenses		1,004		73
Start-up costs		851		915
Tax operating loss		1,728		1,038
Unrealized investment loss		52		61
Total deferred tax assets		8,433		3,458
Deferred tax liabilities				
Deferred acquisition costs		(7,691)		(2,291)
Unrealized investment gains		(870)		(27)
Total deferred tax liabilities		(8,561)		(2,318)
Net deferred tax (liabilities) assets	$	(128)	$	1,140

(Expressed in thousands of U.S. dollars)

10. Related party transactions

In 2020, the Company entered into reinsurance agreements with certain insurance companies of Nationwide. Through the Quota Share ("QS") treaties Nationwide ceded to the Company its proportionate share of the insurance business as summarized in the table below:

		2020		2019
Gross premium written	$	147,957	$	38,060
Premiums earned		66,363		5,410
Loss and loss expenses		(41,257)		(3,096)
Acquisition costs		(21,102)		(1,853)

QS Balances at December 31, 2020 and 2019:

		2020		2019
Premiums receivable	$	101,993	$	25,296
Deferred acquisition costs		36,622		10,911
Reserves for losses and loss expenses		(43,121)		(3,096)
Unearned premiums		(114,244)		(32,650)
Reinsurance balances payable		(568)		–

The Company has an investment management agreement in place with Nationwide Asset Management LLC to manage the Company's investment portfolio. The investment fee during the year amounted to $203 (2019: $27) and the amount payable at December 31, 2020 is $59 (2019: $27).

The Company entered into a service agreement with Ryan Re Underwriting Management LLC to provide underwriting, claims, actuarial and administrative support. The fees for the services are calculated at 2.5% (2019: 2.5%) of premiums earned. Fees incurred during the year amounted to $1,659 (2019: $135) and are included in general and administrative. The amount payable at December 31,2020 is $992 (2019: $135) and is included in the amount due to affiliates.

The amount due to affiliates includes $Nil (2019: $120) and $Nil (2019: $2,652) due to Nationwide and RSG respectively for start-up costs paid on behalf of the Company.

Included in other assets is an amount due from Holdings of $95 (2019: $50) relating to expenses paid by the Company on behalf of Holdings.

At December 31, 2020, $26,651 (2019: $8,472) of available-for-sale fixed income securities, and $8,197 (2019: $1,417) of restricted cash and cash equivalents were on deposit with a custodian in respect of the Company's trust account. The trust agreement was entered into to support the business ceded by Nationwide and the amount held in trust is based on Nationwide's net exposure to the Company.

Related party balances are due on demand and carry no interest.

11. Share capital

		2020		2019
Authorised, issued and fully paid				
120,000 shares at $0.001 each	$	120	$	120

The Common shareholder is entitled to receive dividends only when, and if, declared by the Board of Directors.

12. Additional paid-in capital

Additional paid-in capital represents amounts contributed by the common shareholder in addition to the subscription to the issued share capital. During the year, the common shareholder contributed additional paid-in capital of $1,000.

13. Statutory requirements

The Company is registered as a Class 3A reinsurer under the Insurance Act which imposes certain solvency and liquidity standards, auditing and reporting requirements and grants the Bermuda Monetary Authority ("BMA") powers to supervise, investigate, require information and the production of documents and intervene in the affairs of insurance companies.

Under the Insurance Act, the Company is either required to or is prohibited from doing the following:

- Required to maintain certain solvency and liquidity standards which includes maintaining a minimum liquidity ratio whereby the value of relevant assets must not be less than 75% of the amount of relevant liabilities. The minimum solvency margin is determined as a percentage of either net reserves for losses and loss expenses or premiums written.
- Required to maintain a minimum statutory capital and surplus (Enhanced Capital Requirement or "ECR") at least equal to the greater of a minimum solvency margin or the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR is calculated based on a standardized risk-based capital model used to measure the risk associated with assets, liabilities and premiums.
- Prohibited from declaring or paying any dividends if it were in breach of its minimum solvency margin or liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio.
- Prohibited, without the prior approval of the BMA, from reducing by 15% or more its total statutory capital as set out in its previous year's statutory financial statements.
- Prohibited, without obtaining the prior written approval of the BMA, from writing any "long-term business", as such as expression is understood in the Insurance Act.
- Prohibited, without obtaining the prior written approval of the BMA, from writing any "insurance business", as such expression is understood in the Insurance Act, other than contract of reinsurance with Nationwide Mutual Insurance Company and/or its subsidiaries.

As of December 31, 2020, the Company met all the requirements that it is subject to under the Insurance Act

14. Subsequent events

Subsequent events have been evaluated up to and including April 12, 2021, the date of issuance of these financial statements.