

FINANCIAL STATEMENTS

Nomura Americas Re Ltd.

For the years ended March 31, 2020 and 2019

Nomura Americas Re Ltd.

Financial Statements

For the years ended March 31, 2020 and 2019

Contents

Report of Independent Auditors.....	1
Statements of Financial Condition.....	3
Statements of Income.....	4
Statements of Changes in Shareholders' Equity.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7



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Report of Independent Auditors

Shareholders and Board of Directors
Nomura Americas Re Ltd.

We have audited the accompanying financial statements of Nomura Americas Re Ltd. (the “Company”), which comprise the statements of financial condition as of March 31, 2020 and 2019, and the related statements of income, changes in shareholders’ equity and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity 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 of 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 Nomura Americas Re Ltd. at March 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

August 31, 2020

Nomura Americas Re Ltd.
Statements of Income
(Expressed in United States dollars)

	Year Ended March 31, 2020	Year Ended March 31, 2019
Revenue		
Stand-by fees earned	\$ 17,889,819	\$ 11,756,596
Stand-by fees ceded	(812,745)	(869,189)
Management fees earned	80,759	-
Interest income	18,083,118	4,551,263
	35,240,951	15,438,670
Expenses		
Net transfer pricing fees	16,362,182	10,336,138
Interest expense	18,083,118	4,551,263
Management fees	58,206	57,192
Director fees	23,438	18,750
Consultancy fees	5,832	34,834
Legal fees	76,847	129,725
Corporate secretary fees	17,879	12,594
Government and licensing fees	31,112	43,612
General expenses	202,708	45,566
Trustee fees charges	2,500	2,500
Bank charges	1,597	1,235
	34,865,419	15,233,409
Net income	\$ 375,532	\$ 205,261

See accompanying Notes to Financial Statements.

Nomura Americas Re Ltd.
 Statements of Changes in Shareholders' Equity
 (Expressed in United States dollars)

	Year Ended March 31, 2020	Year Ended March 31, 2019
Share capital		
Authorised share capital - 250,000 shares of par value \$1 each		
Issued shares, fully paid		
Common shares, beginning of year	250,000	250,000
Issued, fully paid during the year	-	-
Common shares, end of year	250,000	250,000
Issued share capital		
Common shares, beginning of year	\$ 250,000	\$ 250,000
Issued, fully paid during the year	-	-
Common shares, end of year	\$ 250,000	\$ 250,000
Contributed surplus		
Contributed surplus, beginning of year	\$ 38,800,000	\$ 19,800,000
Contributed surplus received during the year	-	19,000,000
Contributed surplus, end of year	\$ 38,800,000	\$ 38,800,000
Retained earnings		
Retained earnings, beginning of year	\$ 2,766,816	\$ 2,561,555
Net income for the year	375,532	205,261
Retained earnings, end of year	\$ 3,142,348	\$ 2,766,816

See accompanying Notes to Financial Statements.

Nomura Americas Re Ltd.
Statements of Cash Flows
(Expressed in United States dollars)

	Year Ended March 31, 2020	Year Ended March 31, 2019
Cash flows from operating activities:		
Net income for the year	\$ 375,532	\$ 205,261
Changes in operating assets & liabilities:		
Reinsurance balances receivable	2,815,151	(1,151,408)
Prepaid expenses	136,778	(156,553)
Accounts payable & accrued expenses	45,765	26,165
Deferred stand-by fees revenue	(61,824)	(61,655)
Ceded stand-by fees payable	(6,701)	(14,537)
Intercompany payable	115,408	(2,398,194)
Cash provided by (used in) operating activities	<u>3,420,109</u>	<u>(3,550,921)</u>
Cash flows from investing activity:		
Note receivable from affiliate	<u>(275,000,000)</u>	<u>(377,000,000)</u>
Cash used in investing activities	<u>(275,000,000)</u>	<u>(377,000,000)</u>
Cash flows from financing activity:		
Contributed surplus received	-	19,000,000
Borrowings from Parent	<u>275,000,000</u>	<u>377,000,000</u>
Cash provided by financing activities	<u>275,000,000</u>	<u>396,000,000</u>
Net increase in cash	3,420,109	15,449,079
Cash, beginning of year	<u>43,354,231</u>	<u>27,905,152</u>
Cash, end of year	<u>\$ 46,774,340</u>	<u>\$ 43,354,231</u>

Total cash paid for interest during the year is \$22.6 million (2019 - \$nil).

Total cash paid for taxes during the year is \$nil (2019 - \$nil).

Non-cash transactions

Recognition of securities received as collateral	\$ 275,000,000	\$ 377,000,000
Recognition of obligation to return securities received as collateral	(275,000,000)	(377,000,000)

See accompanying Notes to Financial Statements.

Nomura Americas Re Ltd.
Notes to Financial Statements
(Expressed in United States dollars)

1. Organization

Nomura Americas Re Ltd. (the “Company”) is incorporated in Bermuda and is licensed as a Class C Insurer under the Bermuda Insurance Act 1978, amendments thereto and related Regulations (“Act”). 99.5% of the Company’s issued shares are held by Nomura Holding America Inc. (“NHA” or the “Parent”), with the remaining 0.5% being held by Nomura Automation Management Inc. (“NAMI”). Both NHA and NAMI are United States corporations. NAMI is a wholly-owned subsidiary of NHA which, in turn, is wholly owned by Nomura Holdings, Inc. (“NHI” or “Nomura”), a Japanese corporation. In addition, Nomura Securities International, Inc. (“NSI”) and Nomura Global Financial Products Inc. (“NGFP”), both NHA subsidiaries, provide transaction structuring and execution support to the Company.

The Company was established to facilitate the execution of insurance-linked solutions for insurance clients focusing on US reserve financing solutions. In order to meet client objectives, certain types of transactions are traditionally or most efficiently executed with a reinsurance company. The primary types of transactions the Company has executed and is expected to continue executing are reserve financing and capital efficiency solutions with insurance companies in Bermuda and the Americas. The Company may also enter into other reinsurance transactions with insurance companies, such as the coinsurance of defined portfolios of policies.

2. Summary of Significant Accounting Policies

Use of Estimates

The financial statements are presented in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates.

Cash

The Company defines cash equivalents to be highly liquid investments with original maturities of three months or less other than those held for trading purposes. At March 31, 2020 and 2019, there were no cash equivalents on the Statements of Financial Condition.

Nomura Americas Re Ltd.
Notes to Financial Statements (continued)
(Expressed in United States dollars)

Taxation

ASC 740, *Income Taxes* (“ASC 740”) provides guidance and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of uncertain tax positions (see Note 5).

The Company’s policy is to treat interest and/or penalties related to income tax matters and uncertain tax positions as part of pretax income.

Insurance Contracts

The Company classifies all contracts of insurance or reinsurance that transfer a significant amount of mortality or morbidity risk as insurance contracts in the financial statements. Contracts which do not transfer a significant amount of morbidity or mortality risk are considered to be financial instruments and are accounted for as deposit liabilities where an upfront deposit is received.

For contracts that do not transfer a significant amount of morbidity or mortality risk, the Company would record a loss if it is probable that a liability has been incurred and the amount is reasonably estimable.

Stand-by fees earned/ceded consists of revenues and expenses arising pursuant to the transactions explained in Note 3. This revenue is recognized on an accrual basis and calculated as follows: the standby fee rate multiplied by the daily weighted average of the company’s outstanding commitment for each day during the commitment interest calculation period multiplied by the actual number of days in the applicable commitment interest calculation period over a 360-day count. This revenue is also subject to a transfer pricing arrangement with affiliates (see “Transfer Pricing Arrangement” in Note 4).

Reinsurance balances receivable consists of accrued revenues not yet received. The carrying value of *Reinsurance balances receivable* approximates fair value.

Transfers of Financial Assets

In accordance with ASC 860, *Transfers of Financial Assets*, when the Company acts as the lender in a securities lending agreement and receives securities as collateral that can be repledged or sold, it recognizes the amounts received and a corresponding obligation to return them. These amounts are recorded in *Securities received as collateral* and *Obligation to return securities received as collateral*, respectively, on the Statement of Financial Condition.

Nomura Americas Re Ltd.
Notes to Financial Statements (continued)
(Expressed in United States dollars)

Notes receivable from affiliate

These are notes receivable from an affiliate that the Company purchased to lend under a transaction with a third party (see Note 3). They are recorded at amortized cost.

Borrowings from Parent

Comprised entirely of borrowings from NHA used by the Company to purchase notes receivable from an affiliate.

Related party transactions

Related party relationships exist when one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity, or between and/or among the reporting entity and its key management personnel, directors or its shareholders.

Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the US Dollar, reflecting the denomination of the Company's assets and being the currency in which the Company's expenses are incurred. The financial statements are therefore presented in US Dollars, which is the Company's functional and presentation currency.

Statements of cash flows

The indirect method has been applied in the preparation of the statements of cash flows.

3. Reinsurance Transactions

Since its incorporation, the Company has entered into four US reserve financing transactions (one in 2015, two transactions in 2016 and a transaction in fiscal year 2019, which was amended in the current fiscal year) with major US life insurers (each a "US Life Insurer") and affiliated special purpose entities (each an "SPE"), pursuant to which the respective US Life Insurer has issued to its related SPE surplus notes, in return for an equal principal amount of credit linked notes issued by such SPE. Upon issuance, US Life Insurer holds any credit linked notes as assets to finance its statutory reserves. The relevant credit linked notes will be redeemed in cash in the event that a US Life Insurer has exhausted substantially all assets supporting its respective transaction and the additional funds are required to enable US Life Insurer to make required payments ("Cash Redemption Payment"). A depletion of a US Life Insurer's assets supporting its respective

Nomura Americas Re Ltd.
Notes to Financial Statements (continued)
(Expressed in United States dollars)

transaction could occur due to severe adverse developments in respect of the key risks associated with the underlying life insurance policies (mortality, lapse, and asset risk).

Under its contracts with the SPEs, the Company has agreed to fund any Cash Redemption Payments by the SPEs up to a transaction-specific commitment amount, in return for the receipt of fees. At March 31, 2020 such aggregate specified commitment amounts were \$2,877,778,000 (2019 - \$2,475,794,000). No Cash Redemption Payment actions as described above have been triggered as of the balance sheet date.

In each transaction, the respective US Life Insurer's exposure to the credit of the Company is mitigated by a limited guarantee from NHI.

Effective November 1, 2017, the company entered into an internal insurance agreement with Nomura Americas US Re Ltd ("Insurer") transferring 31% of all risks (\$200m of peak financing notional) associated with an existing reserve financing transaction executed in 2016.

On the effective date of the internal insurance policy, the company received \$1,000,000 from Insurer as deferred stand-by fee revenue. This fee is reported on the Statement of Financial Condition as *Deferred stand-by fees revenue* and will be amortized into income on a straight-line basis until 2034, the maturity date of the reserve financing transaction.

The fiscal year 2019 transaction includes a structural component whereby an affiliate SPE of the US Life Insurer borrowed an asset from the Company and the Company received collateral from the SPE. The fair value of the collateral received by the Company is recorded in *Securities received as collateral* and *Obligation to return securities received as collateral*, respectively, on the Statement of Financial Condition. The collateral received by the Company was not repledged as of March 31, 2020.

In December 2019, the fiscal year 2019 transaction was amended. In connection with the amended transaction, the Company is paid a quarterly management fee on a portion of the aggregate outstanding reserve financing amount. This management fee is reflected in *Management fees earned* on the Statement of Income.

Under ASC 944-15 Financial Services, Insurance, Long-Duration Contracts, the transactions are considered to be contracts that do not subject the reinsurer to the reasonable possibility of significant loss from the events insured, and they are also considered to be investment contracts and financial instruments. As noted above, revenue from these transactions is recognized on an accrual basis and earned over the respective contract periods in accordance with contract terms. Since there was no upfront deposit received by the Company, no deposit liability has been recognized.

Nomura Americas Re Ltd.
Notes to Financial Statements (continued)
(Expressed in United States dollars)

Although the reinsurance transactions are recognized on an accrual basis, their fair value (net of the internal insurance policy) as of March 31, 2020 was \$22.1 million (2019 - \$16.4 million). This fair value is calculated using unobservable inputs, and is considered a Level 3 measurement under ASC 820, *Fair Value Measurement*.

4. Transactions with Related Parties

One of the directors (the “Horseshoe Director”) of the Company is a majority shareholder of the ultimate parent company of Horseshoe Management Ltd. (“Horseshoe”). From inception, Horseshoe has been the appointed insurance manager of the Company. During the year ended March 31, 2020, the Company recognized management fee expense of \$58,206 (2019 - \$57,192), for administrative services provided under the terms of the insurance management agreement with Horseshoe.

The Company has paid a fee of \$23,438 (2019 - \$18,750) for services of an independent director (the “Independent Director”).

As noted above, NHI has provided limited guarantees to the counterparties in the transactions described in Note 3 above under which NHI has agreed to unconditionally and irrevocably guarantee the due and punctual payments of all monies, debts and liabilities of any nature from time to time owing by the Company from the onset of each related transaction, plus certain other defined costs. NHI does not charge a fee to the Company for the provision of these guarantees.

Effective November 1, 2017, the company entered into an internal insurance agreement with Nomura Americas US Re Ltd. (see Note 3).

As noted above, in fiscal year 2019 the Company borrowed \$377 million and a further \$275 million in the current fiscal from NHA to purchase notes receivable from an affiliate. The notes receivable and associated borrowings mature in December 2049 and have an interest rate of three month LIBOR plus a spread.

Transfer Pricing Arrangement

The Company is subject to a transfer pricing arrangement (“TPA”) involving NSI and NGFP, where NSI and NGFP provide trade execution services (“Services”) for positions of the Company in accordance with US transfer pricing regulations and the Organization for Economic Cooperation and Development (“OECD”) transfer pricing guidelines. The Company pays amounts related to profits on these positions (“TPA Revenues”) to NSI and NGFP, after transaction-related expenses. The Company also receives reimbursements for certain costs, including cost of capital (for these purposes includes market and credit risk) under the TPA; the Company’s payments of TPA Revenues to NSI and NGFP are net of the cost of capital reimbursements received. If the TPA

Nomura Americas Re Ltd.
Notes to Financial Statements (continued)
(Expressed in United States dollars)

revenues are less than the sum of transaction expenses and cost of capital (excluding credit risk), then the Company does not receive reimbursement from NSI or NGFP.

Net transfer pricing fees on the Statements of Income is the net transfer pricing fees charged by NSI and NGFP and are comprised as follows:

	<u>2020</u>	<u>2019</u>
Revenue due by the Company	\$ 17,157,833	10,887,407
Capital fee payable to the Company	(350,325)	(184,500)
Expense reimbursement payable to the Company	(445,326)	(366,769)
Net transfer pricing fee	\$ 16,362,182	10,336,138

5. Taxation

Under current laws of Bermuda, there are no income or capital gains taxes payable by the Company. In the event that such taxes are levied in the future, the Company has received an undertaking from the Bermuda Government exempting it from such taxes until March 31, 2035.

The Company is treated as a partnership for U.S. taxation purposes. As any U.S. tax liability arising is the responsibility of the Company's Parent, no liability for U.S. taxation has been included in these financial statements.

As of March 31, 2020, the Company determined that it has no uncertain tax positions, interest or penalties as defined within ASC 740, and accordingly, management has concluded that no additional ASC 740 disclosures are required.

As of March 31, 2020, the Company is subject to examination for tax years ending March 31, 2017 through March 31, 2019 at the federal level. The Company is not currently under audit. The Company does not have unrecognized tax benefits. The Company does not believe that it is reasonably possible that the total amount of unrecognized tax benefits will significantly change within the next 12 months.

6. Share capital and contributed surplus

The Company was incorporated on January 29, 2015, with authorized share capital of \$250,000 divided into 250,000 shares with a par value of \$1.00 each. On incorporation, the Company issued 250,000 fully paid shares of par value \$1.

Nomura Americas Re Ltd.
Notes to Financial Statements (continued)
(Expressed in United States dollars)

During the year ended March 31, 2020, the Company did not receive any additional contributed surplus (2019 - \$19,000,000) from its shareholder.

At March 31, 2020, the Company had issued share capital of \$250,000 (2019 - \$250,000) and contributed surplus of \$38,800,000 (2019 - \$38,800,000)

7. Capital and Regulation

The Company is registered as a Class C Insurer under the Act. The Company has a direction from the Bermuda Monetary Authority (the “Authority”) that requires it to maintain a minimum solvency margin (“MMS”) of \$500,000 (2019 - \$500,000). As at March 31, 2020, the statutory capital and surplus of the Company was \$42,145,666 (2019 - \$41,633,356). Accordingly, the Company has met the MMS requirement.

8. Subsequent Events

The Company has evaluated subsequent events through August 31, 2020, the date as of which these financial statements are available to be issued.