

FINANCIAL STATEMENTS

Nomura Americas US Re Ltd.
For the years ended March 31, 2020 and 2019

Nomura Americas US Re Ltd.

Financial Statements

For the years ended March 31, 2020 and 2019

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Report of Independent Auditors

Shareholder and Board of Directors
Nomura Americas US Re Ltd.

We have audited the accompanying financial statements of Nomura Americas US 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 shareholder’s equity and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in 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 US 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 US Re Ltd.
Statements of Financial Condition
(Expressed in United States dollars)

	March 31, 2020	March 31, 2019
Assets		
Cash	\$ 24,334,579	13,085,903
Due from insureds	1,453,034	1,090,038
Prepaid risk and profit charges ceded	851,014	912,838
Income tax receivable	149,943	411,824
Prepaid expenses	60,593	65,180
 Total assets	 \$ 26,849,163	 15,565,783
Liabilities		
Intercompany payable	\$ 1,452,274	1,268,440
Ceded risk and profit charges payable	202,079	208,781
Deferred tax liability	87,114	191,696
Accounts payable & accrued expenses	69,014	214,690
 Total liabilities	 1,810,481	 1,883,607
Shareholder's equity		
Share capital	250,000	250,000
Contributed surplus	21,860,000	12,600,000
Retained earnings	2,928,682	832,176
 Total shareholder's equity	 25,038,682	 13,682,176
 Total liabilities and shareholder's equity	 \$ 26,849,163	 15,565,783

See accompanying Notes to Financial Statements.

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

	Year Ended March 31, 2020	Year Ended March 31, 2019
Revenue		
Risk and profit charges earned	\$ 7,703,419	6,680,278
Risk and profit charges ceded	<u>(2,224,569)</u>	<u>(930,844)</u>
	5,478,850	5,749,434
Expenses		
Net transfer pricing fees	2,398,720	5,237,286
Legal fees	96,593	73,994
Government and license fees	76,387	71,987
General expenses	126,308	45,369
Management fees	48,206	44,167
Directors' fees	23,437	18,750
Corporate secretary fees	17,285	11,372
Consultancy fees	33,215	-
Trustee fees	3,500	-
Bank charges	1,394	1,010
	<hr/> 2,825,045	<hr/> 5,503,935
Income before taxes	2,653,805	245,499
Income tax expense	557,299	51,555
Net income	<hr/> \$ 2,096,506	<hr/> 193,944

See accompanying Notes to Financial Statements.

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

	Year Ended March 31, 2020	Year Ended March 31, 2019
Share capital		
Authorized 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	<u>250,000</u>	<u>250,000</u>
Issued share capital		
Common shares, beginning of year	\$ 250,000	250,000
Issued, fully paid during the year	-	-
Common shares, end of year	<u>\$ 250,000</u>	<u>250,000</u>
Contributed surplus		
Contributed surplus, beginning of year	\$ 12,600,000	12,600,000
Contributed surplus received during the year	9,260,000	-
Contributed surplus, end of year	<u>\$ 21,860,000</u>	<u>12,600,000</u>
Retained earnings		
Retained earnings, beginning of year	\$ 832,176	638,232
Net income for the year	2,096,506	193,944
Retained earnings, end of year	<u>\$ 2,928,682</u>	<u>832,176</u>

See accompanying Notes to Financial Statements.

Nomura Americas US 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	\$ 2,096,506	193,944
Changes in operating assets & liabilities:		
Intercompany payable	183,834	(1,813,234)
Due from insureds	(362,996)	(38,828)
Prepaid risk and profit charges ceded	61,824	61,655
Accounts payable & accrued expenses	(145,676)	154,160
Income tax receivable	261,881	188,176
Deferred tax liability	(104,582)	20,988
Prepaid expenses	4,587	(22,820)
Ceded risk and profit charges payable	(6,702)	(14,536)
Unearned premium reserve	-	(58,750)
Cash provided by (used in) operating activities	<hr/> 1,988,676	<hr/> (1,329,245)
Cash flows from financing activity:		
Contributed surplus received	9,260,000	-
Cash provided by financing activities	<hr/> 9,260,000	<hr/> -
Net (decrease) / increase in cash	11,248,676	(1,329,245)
Cash, beginning of year	13,085,903	14,415,148
Cash, end of year	<hr/> \$ 24,334,579	<hr/> 13,085,903

Cash paid, net of cash received for income taxes for fiscal 2020 is \$0.4 million. Cash received, net of cash paid for income taxes for fiscal 2019 was \$0.2 million.

See accompanying Notes to Financial Statements.

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

1. Organization

Nomura Americas US Re Ltd. (the “Company”) is incorporated in Bermuda and is licensed as a Class D Insurer under the Bermuda Insurance Act 1978, amendments thereto and related Regulations (“Act”). The Company is wholly owned by Nomura Holding America Inc. (“NHA” or the “Parent”). NHA is a United States corporation. NHA 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.

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.

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

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.

Risk and profit charges 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 earned over the contract period in accordance with contract terms. This revenue is also subject to a transfer pricing arrangement with an affiliate (see “Transfer Pricing Arrangement” in Note 4).

Due from insureds consists of accrued revenues not yet received. Unearned premium reserve reflects the amount of premiums written but not yet earned and *Ceded risk and profit charges payable* is an expense arising pursuant to the Transactions explained in Note 3. The carrying values of these three balances approximate fair values.

Income taxes

Certain income and expense items are accounted for in different periods for income tax purposes as compared to financial reporting purposes. Provisions for deferred taxes are made in recognition of these temporary differences in accordance with the provisions of ASC 740, Income Taxes (“ASC 740”).

ASC 740 provides guidance and prescribes a recognition threshold and measurement attributes 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.

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.

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

Statement of cash flows

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

3. Reinsurance Transactions

On January 2, 2016, the Company entered into a transaction, which was amended in December 2018, (the “Transaction”) with a major US life insurer (“US Life Insurer”), pursuant to which the Company is to provide quota share reinsurance on certain group life insurance contracts issued by US Life Insurer. The Transaction does not have a defined duration. Reinsurance premiums in excess of claims are refunded to the US Life Insurer, net of an expense and risk charge (the “Experience Refund”). There is an Experience Refund sunset date whereby the US Life Insurer will forego all future Experience Refunds beyond January 2, 2024, if the reinsurance is not recaptured by such date.

Effective November 1, 2017, the Company entered into a transaction with a major US insurer and reinsurer (“US Insurer and Reinsurer”), which involves the transfer of certain risks related to three reserve financing arrangements. The Company assumed \$575m of peak financing notional in respect of two reserve financing arrangements (one reserve finance transaction was terminated on March 28, 2019 and subsequently re-instated with an effective date of April 1, 2019) and to facilitate the transaction, the Company issued an internal insurance agreement with Nomura Americas Re Ltd (“NARL”) assuming \$200m of peak financing notional associated with an existing reserve financing transaction on NARL.

On the effective date of the internal insurance policy, the Company paid \$1,000,000 to NARL as a one off risk and profit charges ceded fee. This fee is reported on the Statement of Financial Condition as *Prepaid risk and profit charges ceded* and will be amortized into expense on a straight-line basis until 2034, the maturity date of the reserve financing transaction.

The Company then reinsured 100% of such internal insurance policy to the US life Insurer and Reinsurer and effectively transferring risk from NARL to the US Insurer and Reinsurer. The Company earns risk and profit charges equal to the risk and profit charges earned by NARL under its contingent commitment facility agreement and in exchange makes a payment in the amount of any loss that NARL incurs on the contingent commitment facility.

The counterparties’ exposure to the credit of the Company is mitigated by specific limited guarantees from NHI.

Effective April 1, 2019, an existing reinsurance agreement with a major US life insurer was novated to the Company from US CB Reinsurance 1 IC Ltd., an affiliate of the Company. Pursuant to the agreement, the Company provides quota share reinsurance in respect of certain participating life insurance contracts issued by US life insurer. The transaction does not have a defined duration

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

and has an Experience Refund. There is an Experience Refund sunset date whereby the US life insurer will forego all future Experience Refunds beyond October 1, 2024, if the reinsurance is not recaptured by such date. In connection with the novation of the contract, the Company agreed to pay a one-time ceding commission fee to US CB Reinsurance 1 IC Ltd. of \$1,350,000.

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.

These Transactions are accounted for as reinsurance contracts. For tax purposes, the Transactions are treated as insurance contracts and follow statutory accounting principles.

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 \$Nil (2019 - \$ Nil). 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”). Horseshoe is the appointed insurance manager of the Company. The Company has recognized \$48,206 (2019 - \$44,167) of management fee expense for administrative services provided under the terms of the insurance management agreement with Horseshoe.

The company has paid a fee of \$23,437 (2019 - \$18,750) for services of an independent director (the “Independent Director”).

As noted above, NHI has provided limited guarantees to counterparties 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 plus certain other defined costs. NHI does not charge a fee to the Company for the provision of this guarantee.

Effective April 1, 2019, an existing reinsurance agreement was novated to the Company by an affiliate (see Note 3).

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

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 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>
Net revenue payable by the Company	\$ 5,478,850	5,749,434
Capital fee payable to the Company	(2,628,225)	(229,500)
Expense reimbursement payable to the Company	(451,905)	(282,648)
Net transfer pricing fee	<u>\$ 2,398,720</u>	<u>5,237,286</u>

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

5. Taxation

Income tax expense / (benefit) is comprised of the following:

	2020	2019
Current		
Federal	\$ 661,881	30,567
Total current income tax expense	<u>\$ 661,881</u>	<u>30,567</u>
Deferred		
Federal	\$ (104,582)	20,988
Total deferred income tax (benefit) / expense	<u>\$ (104,582)</u>	<u>20,988</u>
Total income tax expense	<u>\$ 557,299</u>	<u>51,555</u>

The effective tax rate for the year is equal to the statutory federal rate of 21%.

The components of the Company's net deferred tax liability ("DTL") at March 31, 2020 are as follows:

	2020	2019
Deferred tax assets ("DTAs")	\$ 91,599	-
Less: Valuation allowance	-	-
	<u>91,599</u>	<u>-</u>
Deferred tax liabilities	(178,713)	(191,696)
Net deferred tax liability	<u>\$ (87,114)</u>	<u>(191,696)</u>

ASC 740 prescribes an asset and liability approach to accounting for taxes that requires the recognition of DTAs and DTLs for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. In estimating future tax consequences, ASC 740 generally considers all expected future events other than future enactment of changes in the tax law or rates. The DTA relates to capitalization of certain deferred acquisition costs. The DTL relates to the profit ceded fees.

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

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 has elected to be treated as U.S. taxable entity, under section 953(d) of the United States Internal Revenue Code. Any U.S. tax liability arising out of operations of the Company has been included in these financial statements.

As of March 31, 2020, the Company determined that it has no material 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 tax examination for the tax years ending December 31, 2016 through 2018 at the federal level. The Company is not currently under tax audit. The Company does not have any material unrecognized tax benefits. The Company does not believe that it is reasonably possible that the total unrecognized benefits will significantly change within the next 12 months.

6. Share capital and contributed surplus

The Company was incorporated on December 9, 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.

During the year ended March 31, 2020, the Company received additional contributed surplus of \$9,260,000 (2019 - \$Nil) from its shareholder.

At March 31, 2020, the Company had issued share capital of \$250,000 (2019 - \$250,000) and contributed surplus of \$21,860,000 (2019 - \$12,600,000).

7. Capital and Regulation

The Company is registered as a Class D 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 (“MSM”) of \$5,000,000 (2019 - \$5,000,000). As at March 31, 2020, the statutory capital and surplus of the Company was \$24,978,089 (2019 - \$13,616,996) and, accordingly, the Company has met the MSM 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.