



April 23, 2021

Report of Independent Auditors

To the Board of Directors of Centre Solutions (U.S.) Limited

We have audited the accompanying condensed consolidated financial statements of Centre Solutions (U.S.) Limited and its subsidiaries, which comprise the condensed consolidated balance sheets and condensed consolidated statements of capital and surplus as of December 31, 2020 and 2019, and the related condensed consolidated statements of income for the years then ended, and the related notes to the condensed consolidated financial statements.

Management's responsibility for the condensed consolidated financial statements

Management is responsible for the preparation and fair presentation of the condensed consolidated financial statements in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial statements (the 'Legislation'). Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the condensed consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the condensed consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the condensed consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the condensed consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the condensed consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for adverse opinion on International Financial Reporting Standards

As described in Note 3 of the condensed consolidated financial statements, the condensed consolidated financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than International Financial Reporting Standards.



The effects on the condensed consolidated financial statements of the variances between the regulatory basis of accounting described in Note 3 and International Financial Reporting Standards, although not reasonably determinable, are presumed to be material.

Adverse opinion on International Financial Reporting Standards

In our opinion, because of the significance of the matter discussed in the “Basis for adverse opinion on International Financial Reporting Standards” paragraph, the condensed consolidated financial statements referred to above do not present fairly, in accordance with International Financial Reporting Standards, the financial position of the Company and its subsidiaries as of December 31, 2020 and 2019, or the results of their operations or their cash flows for the years then ended.

Opinion on regulatory basis of accounting

In our opinion, the condensed consolidated financial statements referred to above present fairly, in all material respects, the financial position of Centre Solutions (U.S.) Limited and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations for the years then ended in accordance with the financial reporting provisions of the Legislation described in Note 3.

A handwritten signature in black ink that reads "PricewaterhouseCoopers Ltd." in a cursive script.

Chartered Professional Accountants

CONDENSED CONSOLIDATED BALANCE SHEET

CENTRE SOLUTIONS (U.S.) LIMITED

As at **December 31, 2020**

expressed in **United States Dollars**

| LINE No. | | 2020 | 2019 |
|----------|------------------------------------------------------|---------------|---------------|
| 1. | CASH AND CASH EQUIVALENTS | 65,454,606 | 50,244,410 |
| 2. | QUOTED INVESTMENTS: | | |
| (a) | Bonds and Debentures | | |
| | i. Held to maturity | | |
| | ii. Other | 2,337,482,537 | 2,406,692,232 |
| (b) | Total Bonds and Debentures | 2,337,482,537 | 2,406,692,232 |
| (c) | Equities | | |
| | i. Common stocks | | |
| | ii. Preferred stocks | | |
| | iii. Mutual funds | | |
| (d) | Total equities | - | - |
| (e) | Other quoted investments | | |
| (f) | Total quoted investments | 2,337,482,537 | 2,406,692,232 |
| 3. | UNQUOTED INVESTMENTS: | | |
| (a) | Bonds and Debentures | | |
| | i. Held to maturity | | |
| | ii. Other | 56,992,961 | 54,620,060 |
| (b) | Total Bonds and Debentures | 56,992,961 | 54,620,060 |
| (c) | Equities | | |
| | i. Common stocks | | |
| | ii. Preferred stocks | | |
| | iii. Mutual funds | | |
| (d) | Total equities | - | - |
| (e) | Other unquoted investments | | |
| (f) | Total unquoted investments | 56,992,961 | 54,620,060 |
| 4. | INVESTMENTS IN AND ADVANCES TO AFFILIATES | | |
| (a) | Unregulated entities that conduct ancillary services | | |
| (b) | Unregulated non-financial operating entities | | |
| (c) | Unregulated financial operating entities | | |
| (d) | Regulated non-insurance financial operating entities | | |
| (e) | Regulated insurance financial operating entities | - | - |
| (f) | Total investments in affiliates | - | - |
| (g) | Advances to affiliates | 10,013,440 | - |
| (h) | Total investments in and advances to affiliates | 10,013,440 | - |
| 5. | INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE: | | |
| (a) | First liens | | |
| (b) | Other than first liens | | |
| (c) | Total investments in mortgage loans on real estate | - | - |
| 6. | POLICY LOANS | 598,738 | 719,254 |
| 7. | REAL ESTATE:C103 | | |
| (a) | Occupied by the company (less encumbrances) | | |
| (b) | Other properties (less encumbrances) | | |
| (c) | Total real estate | - | - |

CONDENSED CONSOLIDATED BALANCE SHEET

CENTRE SOLUTIONS (U.S.) LIMITED

As at **December 31, 2020**

expressed in **United States Dollars**

| LINE No. | | 2020 | 2019 |
|----------|-------------------------------------------------------------------------|---------------|---------------|
| 8. | COLLATERAL LOANS | | |
| 9. | INVESTMENT INCOME DUE AND ACCRUED | 17,312,635 | 18,945,721 |
| 10. | ACCOUNTS AND PREMIUMS RECEIVABLE: | | |
| (a) | In course of collection | 64,601,322 | 65,113,752 |
| (b) | Deferred - not yet due | | |
| (c) | Receivables from retrocessional contracts | | |
| (d) | Total accounts and premiums receivable | 64,601,322 | 65,113,752 |
| 11. | REINSURANCE BALANCES RECEIVABLE: | | |
| (a) | Foreign affiliates | | |
| (b) | Domestic affiliates | 4 | 4 |
| (c) | Pools & associations | | |
| (d) | All other insurers | 11,579,229 | 10,501,472 |
| (e) | Total reinsurance balance receivable | 11,579,233 | 10,501,476 |
| 12. | FUNDS HELD BY CEDING REINSURERS | 17,778,404 | 23,876,946 |
| 13. | SUNDRY ASSETS: | | |
| (a) | Derivative instruments | | |
| (b) | Segregated accounts companies - long-term business - variable annuities | | |
| (c) | Segregated accounts companies - long-term business - other | | |
| (d) | Segregated accounts companies - general business | | |
| (e) | Deposit assets | | |
| (f) | Deferred acquisition costs | - | - |
| (g) | Net receivables for investments sold | 884 | 2,248 |
| (h) | Income tax receivable | 10,073,341 | 286,455 |
| (i) | Deferred tax asset | 4,211,253 | |
| (j) | | | |
| (k) | Total sundry assets | 14,285,478 | 288,703 |
| 14. | LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS | | |
| (a) | Letters of credit | | |
| (b) | Guarantees | | |
| (c) | Other instruments | | |
| (e) | Total letters of credit, guarantees and other instruments | - | - |
| 15. | TOTAL | 2,596,099,354 | 2,631,002,554 |

CONDENSED CONSOLIDATED BALANCE SHEET

CENTRE SOLUTIONS (U.S.) LIMITED

As at **December 31, 2020**

expressed in **United States Dollars**

| LINE No. | | 2020 | 2019 |
|----------|--------------------------------------------------------------------------------------|---------------|---------------|
| | TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS | | |
| 16. | UNEARNED PREMIUM RESERVE | | |
| (a) | Gross unearned premium reserves | 104,614 | 121,091 |
| (b) | Less: Ceded unearned premium reserve | | |
| | i. Foreign affiliates | | |
| | ii. Domestic affiliates | | |
| | iii. Pools & associations | | |
| | iv. All other insurers | | |
| (c) | Total ceded unearned premium reserve | - | - |
| (d) | Net unearned premium reserve | 104,614 | 121,091 |
| 17. | LOSS AND LOSS EXPENSE PROVISIONS: | | |
| (a) | Gross loss and loss expense provisions | 352,808,049 | 430,023,807 |
| (b) | Less : Reinsurance recoverable balance | | |
| | i. Foreign affiliates | | |
| | ii. Domestic affiliates | - | - |
| | iii. Pools & associations | | |
| | iv. All other reinsurers | 348,748,049 | 425,830,811 |
| (c) | Total reinsurance recoverable balance | 348,748,049 | 425,830,811 |
| (d) | Net loss and loss expense provisions | 4,060,000 | 4,192,996 |
| 18. | OTHER GENERAL BUSINESS INSURANCE RESERVES | | |
| 19. | TOTAL GENERAL BUSINESS INSURANCE RESERVES | 4,164,614 | 4,314,087 |
| | LONG-TERM BUSINESS INSURANCE RESERVES | | |
| 20. | RESERVE FOR REPORTED CLAIMS | 1,971,411 | 1,462,570 |
| 21. | RESERVE FOR UNREPORTED CLAIMS | 5,822,640 | 6,587,763 |
| 22. | POLICY RESERVES - LIFE | | |
| 23. | POLICY RESERVES - ACCIDENT AND HEALTH | 214,553,207 | 216,166,658 |
| 24. | POLICYHOLDERS' FUNDS ON DEPOSIT | | |
| 25. | LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS | | |
| 26. | OTHER LONG-TERM BUSINESS INSURANCE RESERVES | | |
| 27. | TOTAL LONG-TERM BUSINESS INSURANCE RESERVES | | |
| (a) | Total Gross Long-Term Business Insurance Reserves | 1,850,834,980 | 1,828,748,683 |
| (b) | Less: Reinsurance recoverable balance on long-term business | | |
| | (i) Foreign Affiliates | | |
| | (ii) Domestic Affiliates | 1,556,870,942 | 1,535,703,523 |
| | (iii) Pools and Associations | | |
| | (iv) All Other Insurers | 71,616,780 | 68,828,169 |
| (c) | Total Reinsurance Recoverable Balance | 1,628,487,722 | 1,604,531,692 |
| (d) | Total Net Long-Term Business Insurance Reserves | 222,347,258 | 224,216,991 |

CONDENSED CONSOLIDATED BALANCE SHEET

CENTRE SOLUTIONS (U.S.) LIMITED

As at **December 31, 2020**expressed in **United States Dollars**

| LINE No. | | 2020 | 2019 |
|-----------------|-----------------------------------------------------------|---------------|---------------|
| | OTHER LIABILITIES | | |
| 28. | INSURANCE AND REINSURANCE BALANCES PAYABLE | 23,985,728 | 23,358,132 |
| 29. | COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE | | |
| 30. | LOANS AND NOTES PAYABLE | | |
| 31. | (a) INCOME TAXES PAYABLE | - | - |
| | (b) DEFERRED INCOME TAXES | - | 34,892 |
| 32. | AMOUNTS DUE TO AFFILIATES | 1,042,557 | 977,434 |
| 33. | ACCOUNTS PAYABLE AND ACCRUED LIABILITIES | 1,627,461 | 2,321,442 |
| 34. | FUNDS HELD UNDER REINSURANCE CONTRACTS: | 1,780,405,846 | 1,918,347,165 |
| 35. | DIVIDENDS PAYABLE | | |
| 36. | SUNDRY LIABILITIES: | | |
| (a) | Derivative instruments | 301,221,130 | 200,913,215 |
| (b) | Segregated accounts companies | | |
| (c) | Deposit liabilities | | |
| (d) | Net payable for investments purchased | 4,422,152 | 4,694,809 |
| (e) | Deferred Gain | 3,285,725 | 3,770,756 |
| (f) | Other sundry liabilities (specify) | | |
| (g) | Other sundry liabilities (specify) | | |
| (h) | Total sundry liabilities | 308,929,007 | 209,378,780 |
| 37. | LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS: | | |
| (a) | Letters of credit | | |
| (b) | Guarantees | | |
| (c) | Other instruments | | |
| (d) | Total letters of credit, guarantees and other instruments | - | - |
| 38. | TOTAL OTHER LIABILITIES | 2,115,990,599 | 2,154,417,845 |
| 39. | TOTAL INSURANCE RESERVES AND OTHER LIABILITIES | 2,342,502,471 | 2,382,948,923 |
| | CAPITAL AND SURPLUS | | |
| 40. | TOTAL CAPITAL AND SURPLUS | 253,596,883 | 248,053,631 |
| 41. | TOTAL | 2,596,099,354 | 2,631,002,554 |

CONDENSED CONSOLIDATED STATEMENT OF INCOME

CENTRE SOLUTIONS (U.S.) LIMITED

 As at December 31, 2020
 expressed in United States Dollars

| LINE No. | | 2020 | 2019 |
|----------|----------------------------------------------------------------------|--------------|--------------|
| | GENERAL BUSINESS UNDERWRITING INCOME | | |
| 1. | GROSS PREMIUMS WRITTEN | | |
| | (a) Direct gross premiums written | - | - |
| | (b) Assumed gross premiums written | (1,098,439) | 486,601,615 |
| | (c) Total gross premiums written | (1,098,439) | 486,601,615 |
| 2. | REINSURANCE PREMIUMS CEDED | (1,098,439) | 486,601,615 |
| 3. | NET PREMIUMS WRITTEN | - | - |
| 4. | INCREASE (DECREASE) IN UNEARNED PREMIUMS | 16,477 | 56,706 |
| 5. | NET PREMIUMS EARNED | 16,477 | 56,706 |
| 6. | OTHER INSURANCE INCOME | 485,031 | 129,244 |
| 7. | TOTAL GENERAL BUSINESS UNDERWRITING INCOME | 501,508 | 185,950 |
| | GENERAL BUSINESS UNDERWRITING EXPENSES | | |
| 8. | NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED | (119,197) | 137,915 |
| 9. | COMMISSIONS AND BROKERAGE | - | (6,713) |
| 10. | TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES | (119,197) | 131,202 |
| 11. | NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS | 620,705 | 54,748 |
| | LONG-TERM BUSINESS INCOME | | |
| 12. | GROSS PREMIUMS AND OTHER CONSIDERATIONS: | | |
| | (a) Direct gross premiums and other considerations | 13,372,260 | 14,803,170 |
| | (b) Assumed gross premiums and other considerations | 34,773,270 | 39,347,375 |
| | (c) Total gross premiums and other considerations | 48,145,530 | 54,150,545 |
| 13. | PREMIUMS CEDED | 29,476,091 | 33,478,052 |
| 14. | NET PREMIUMS AND OTHER CONSIDERATIONS: | | |
| | (a) Life | | |
| | (b) Annuities | | |
| | (c) Accident and health | 18,669,439 | 20,672,493 |
| | (d) Total net premiums and other considerations | 18,669,439 | 20,672,493 |
| 15. | OTHER INSURANCE INCOME | | |
| 16. | TOTAL LONG-TERM BUSINESS INCOME | 18,669,439 | 20,672,493 |
| | LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES | | |
| 17. | CLAIMS - LIFE | | |
| 18. | POLICYHOLDERS' DIVIDENDS | | |
| 19. | SURRENDERS | | |
| 20. | MATURITIES | | |
| 21. | ANNUITIES | | |
| 22. | ACCIDENT AND HEALTH BENEFITS | 39,545,973 | 39,035,840 |
| 23. | COMMISSIONS | 618,699 | 212,537 |
| 24. | OTHER | 56,530,220 | 56,662,656 |
| 25. | TOTAL LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES | 96,694,892 | 95,911,033 |
| 26. | INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES): | | |
| | (a) Life | | |
| | (b) Annuities | | |
| | (c) Accident and health | (1,631,732) | 4,432,389 |
| | (d) Total increase (decrease) in policy reserves | (1,631,732) | 4,432,389 |
| 27. | TOTAL LONG-TERM BUSINESS EXPENSES | 95,063,160 | 100,343,422 |
| 28. | NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS | (76,393,721) | (79,670,929) |
| 29. | COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS | (75,773,016) | (79,616,181) |

CONDENSED CONSOLIDATED STATEMENT OF INCOME
CENTRE SOLUTIONS (U.S.) LIMITED

As at **December 31, 2020**
 expressed in **United States Dollars**

| LINE No. | | 2020 | 2019 |
|----------|------------------------------------------------|--------------|--------------|
| | UNDERNOTED ITEMS | | |
| 30. | COMBINED OPERATING EXPENSE | | |
| | (a) General and administration | 3,752,458 | 3,625,061 |
| | (b) Personnel cost | | |
| | (c) Other | | |
| | (d) Total combined operating expenses | 3,752,458 | 3,625,061 |
| 31. | COMBINED INVESTMENT INCOME - NET | 35,802,725 | 72,365,521 |
| 32. | COMBINED OTHER INCOME (DEDUCTIONS) | 35,731 | 41,051 |
| 33. | COMBINED INCOME BEFORE TAXES | (43,687,018) | (10,834,670) |
| 34. | COMBINED INCOME TAXES (IF APPLICABLE) | | |
| | (a) Current | 4,183,988 | 14,649,609 |
| | (b) Deferred | (4,599,842) | (9,989,888) |
| | (c) Total | (415,854) | 4,659,721 |
| 35. | COMBINED INCOME BEFORE REALIZED GAINS (LOSSES) | (43,271,164) | (15,494,391) |
| 36. | COMBINED REALIZED GAINS (LOSSES) | 47,100,667 | 11,986,516 |
| 37. | COMBINED INTEREST CHARGES | | |
| 38. | NET INCOME | 3,829,503 | (3,507,875) |

CONDENSED CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS

CENTRE SOLUTIONS (U.S.) LIMITED

As at **December 31, 2020**
expressed in **United States Dollars**

| LINE No. | 2020 | 2019 |
|----------------------------------------------------------------------------------|-------------|-----------------|
| 1. CAPITAL: | | |
| (a) Capital Stock | | |
| (i) Common Shares | | |
| authorized | 370,000 | 370,000 |
| value | \$ 1,000 | each issued and |
| fully paid | 370,000 | shares |
| (ii) | | |
| (A) Preferred shares: | | |
| authorized | | |
| value | | |
| fully paid | | |
| aggregate liquidation value for — | | |
| 2020 | | |
| 2019 | | |
| (B) Preferred shares issued by a subsidiary: | | |
| authorized | | |
| value | | |
| fully paid | | |
| aggregate liquidation value for — | | |
| 2020 | | |
| 2019 | | |
| (iii) Treasury Shares | | |
| repurchased | | |
| value | | |
| (b) Contributed surplus | 163,979,804 | 163,979,804 |
| (c) Any other fixed capital | | |
| (i) Hybrid capital instruments | | |
| (ii) Guarantees and others | | |
| (iii) Total any other fixed capital | - | - |
| (d) Total Capital | 164,349,804 | 164,349,804 |
| 2. SURPLUS: | | |
| (a) Surplus - Beginning of Year | 83,703,827 | 85,157,035 |
| (b) Add: Income for the year | 3,829,503 | (3,507,875) |
| (c) Less: Dividends paid and payable | - | - |
| (d) Add (Deduct) change in unrealized appreciation (depreciation) of investments | 1,713,749 | 2,054,667 |
| (e) Add (Deduct) change in any other surplus | - | - |
| (f) Surplus - End of Year | 89,247,079 | 83,703,827 |
| 3. MINORITY INTEREST | | |
| 4. TOTAL CAPITAL AND SURPLUS | 253,596,883 | 248,053,631 |

CENTRE SOLUTIONS (U.S.) LIMITED
NOTES TO THE CONDENSED CONSOLIDATED GENERAL PURPOSE FINANCIAL
STATEMENTS
DECEMBER 31, 2020
(expressed in United States dollars)

General Notes to the Consolidated Financial Statements

1. Centre Solutions (U.S.) Limited is a wholly-owned subsidiary of Centre Group Holdings (U.S.) Limited (CGHUS), a holding company incorporated in the United States. The Company is controlled by CGHUS which is a subsidiary of Zurich Structured Finance, Inc. (ZSF), a company incorporated in the United States. ZSF is a subsidiary of Zurich Finance Company AG, a holding company incorporated in Switzerland, which in turn is owned by Zurich Insurance Company Ltd (Zurich) which is owned by Zurich Insurance Group Ltd, which is also incorporated in Switzerland.

Centre Insurance Company (CICO), a company incorporated in the state of Delaware and Centre Life Insurance Company (CLIC), a company incorporated in the state of Massachusetts are wholly-owned subsidiaries of the Company that are consolidated into these financial statements.

2. Centre Solutions (U.S.) Limited and its subsidiaries (the Company) provides non-traditional customized insurance, reinsurance and financial solutions for U.S. based clients. The main line of business is structured finite reinsurance. The Company also provides reinsurance for health and disability risks, U.S. asbestos and environmental liability insurance portfolios primarily for United States based clients. The Company is currently in a managed run-off.
3. The condensed consolidated general purpose financial statements have been prepared in conformity with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to Condensed General Purpose Financial Statements (the Legislation). The condensed consolidated general purpose financial statements are based upon International Financial Reporting Standards (IFRS) but are in accordance with the reporting requirements of the Legislation, which varies in certain respects from IFRS. The more significant variances are as follows:
 - A consolidated statement of cash flows is not included;
 - A consolidated statement of comprehensive income is not included;
 - The presentation and classification of financial statement line items is in accordance with Schedules IX and XI of the Insurance Account Rules 2016 and differ from the expected presentation and classification under IFRS; and
 - The notes included in the condensed consolidated general purpose financial statements have been prepared in accordance with Schedule X of the Insurance Account Rules 2016 and exclude certain information required under IFRS.

CENTRE SOLUTIONS (U.S.) LIMITED
NOTES TO THE CONDENSED CONSOLIDATED GENERAL PURPOSE FINANCIAL
STATEMENTS
DECEMBER 31, 2020
(expressed in United States dollars)

The condensed consolidated general purpose financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

Certain amounts recorded in the condensed financial statements reflect estimates and assumptions made by management. These include assumptions regarding economic factors such as interest and discount rates, currency and credit assumptions, and non-economic factors such as interest and discount rates, currency and credit assumptions and non-economic factors such as claims frequency and severity expectations. Actual results may differ from the estimates made.

4. Significant accounting policies are as follows:

(a) Premiums

Premiums from short duration contracts are recognized as revenue ratably over the terms of the contracts. Unearned premiums are computed on the monthly pro-rata method. Premiums on the residual value insurance (RVI) deals are only earned on the earlier of the strike date or when the entire deal is off risk. Future investment income is considered in determining whether a premium deficiency exists. Premiums on credit enhancement insurance are recognized as revenue over the related risk period.

Premiums from traditional long duration health and disability policies are recognized as revenues when due over the premium paying periods of the policies. Benefits and expenses are matched with such revenues so as to result in the recognition of profits over the life of the contracts. This match is accomplished by means of the provision for liabilities for future policy benefits and the deferral and subsequent amortization of policy acquisition costs.

(b) Policy Acquisition Costs

Policy acquisition costs associated with short duration contracts include brokerage and certain other internal and external underwriting expenses which vary with and are directly related to the production of business. Such costs are deferred to the extent recoverable from future earned premium and anticipated investment income, and amortized ratably over the terms of the related contracts.

CENTRE SOLUTIONS (U.S.) LIMITED
NOTES TO THE CONDENSED CONSOLIDATED GENERAL PURPOSE FINANCIAL
STATEMENTS
DECEMBER 31, 2020
(expressed in United States dollars)

(c) Losses and loss adjustment expenses

The general business reserve for losses and loss adjustment expenses represents the estimates of the ultimate cost of all losses incurred but not paid through December 31, 2020 and estimates of the total liability incurred under profit/commutation provisions. These estimates are continually reviewed and, as adjustments become necessary, such adjustments are reflected in current operations. Since the reserve is based on estimates, the ultimate settlement of losses and the related loss adjustment expenses may vary from the reserve. A premium deficiency reserve (PDR) is established for any RVI contracts within 24 months of expiry if it is apparent that a loss is likely to occur upon expiry of the contract.

(d) Long-term Business Insurance Reserves

Future policy benefits under traditional long duration health and disability reinsurance contracts are estimated using a net level premium method and have been computed based upon expected investment yields and assumptions on mortality, morbidity and withdrawal rates applicable at the time the contracts are issued. These assumptions are based on the ceding company's experience as well as industry experience and standards and include a margin for adverse deviation. The assumptions vary with the characteristics of the plan of insurance, year of issue, age of insured and other appropriate factors. These estimates are continually reviewed and, as adjustments become necessary, such adjustments are reflected in current operations. The best estimate of future policy benefits includes any liability under profit/commutation provisions of various contracts, which incorporates actual investment income including investment gains and losses.

Unrealized gains and losses on investments held to support future policy benefits are recorded as embedded derivatives in accordance with Derivative Implementation Guidance issue B-36 (DIG B36). The investments are classified as trading.

Funds held on behalf of reinsurance contract holders includes amounts held by the Company for the benefit of assuming companies pursuant to the terms of the reinsurance contracts. Interest credited on funds held balances may include realized gains and losses on the Company's trading investment portfolio, depending on contract terms.

CENTRE SOLUTIONS (U.S.) LIMITED
NOTES TO THE CONDENSED CONSOLIDATED GENERAL PURPOSE FINANCIAL
STATEMENTS
DECEMBER 31, 2020
(expressed in United States dollars)

Deferred reinsurance losses represent the deficiency of assets received as compared to the liabilities for future policy benefits assumed in connection with reinsurance of existing blocks of health and disability business. Deferred reinsurance losses are amortized over the premium paying period of the related policies using assumptions consistent with those used to compute future policy benefits. Amortization is included in policy claims and benefits in the consolidated statements of income.

(e) Investment Income

Investment income is accounted for under the accrual basis.

(f) Investments

Quoted and unquoted investments are carried at fair value, with the unrealized gains and losses on available for sale securities reported in a separate component of surplus, and the unrealized gains and losses on securities classified as trading reported as realized gains/(losses) in income. Investments are assessed quarterly whether there is objective evidence that loss events have occurred that negatively affect the estimated future cash flows of the investment. A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more occurred loss events that have an impact on the estimated future cash flows of the financial asset.

The evaluation of whether an available-for-sale debt security is impaired requires analysis of the credit standing of a particular issuer and involves management judgment. When assessing impairment of available-for-sale debt securities, the Group places emphasis on issuer specific factors, such as significant financial difficulty, default or delinquency on interest or principal payments. A credit rating downgrade, worsened liquidity or decline in fair value below the weighted average cost is not by itself considered a loss event, but rather incorporated in the impairment analysis along with other available information.

(g) Cash and Cash Equivalents

The Company defines cash and cash equivalents as cash and certain highly liquid short-term investments with an original maturity date of three months or less from the date of purchase.

CENTRE SOLUTIONS (U.S.) LIMITED
NOTES TO THE CONDENSED CONSOLIDATED GENERAL PURPOSE FINANCIAL
STATEMENTS
DECEMBER 31, 2020
(expressed in United States dollars)

(h) Commutation Policy

Upon commutation of a contract the "loss and loss expense provisions" line on the Company's consolidated balance sheet is reduced and a gain or loss is recorded within "net losses incurred and net loss expenses incurred" line within the consolidated income statement for the difference between the carried reserve on the contract and the commutation payment. Commutations can account for a significant part of the Company's business.

(i) Income Tax

The Company has elected under Internal Revenue Code Section 953(d) to be treated as a U.S. domestic insurer for federal income tax purposes, and thus is subject to income taxes imposed by U.S. federal authorities.

Deferred federal income taxes are provided for temporary differences between the financial statement and tax basis of assets and liabilities, principally the discount on unpaid losses and loss adjustment expenses, unearned premium reserves, deferred acquisition costs, differences in book and tax basis of investments, and the future benefit of net operating loss carryovers.

- 5. Premium income - See 4(a) above.
- Investment income - See 4(e) above.
- Commission income - Not applicable.

6. Foreign Currencies

Foreign currency monetary assets and liabilities are translated into U.S. Dollars at the rates of exchange prevailing on balance sheet date. Revenues and expenses are translated at the rates prevailing on the date of the transactions. Gains and losses arising from foreign currency transactions are credited or charged to income.

- 7-12. Not applicable.

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13. The fair values hierarchy of investments is based on the following levels:

Level 1 - includes assets and liabilities for which fair values are determined directly from unadjusted current quoted prices resulting from orderly transactions in active markets for identical assets/liabilities.

Level 2 - includes assets and liabilities for which fair values are determined using significant inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable market inputs.

Level 3 – includes financial assets for which the fair value is determined using valuation techniques with at least one significant input not being based on observable market data. In circumstances when there is little, if any, market activity for a certain instrument, the Company is required to develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability. This would normally apply in the case of investments in asset backed securities for which very limited market activity is observed and long-dated derivatives

| <i>Fair Value Hierarchy</i> for the year ended December 31 | | 2020 | | | |
|------------------------------------------------------------|--|---------|----------------------|-------------------|----------------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | |
| Bonds and Debentures | | - | 2,337,482,537 | 56,992,961 | 2,394,475,498 |
| Total Bonds and Debentures | | - | 2,337,482,537 | 56,992,961 | 2,394,475,498 |
| Total assets | | - | 2,337,482,537 | 56,992,961 | 2,394,475,498 |
| <i>Fair Value Hierarchy</i> for the year ended December 31 | | 2019 | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | |
| Bonds and Debentures | | - | 2,406,692,232 | 54,620,060 | 2,461,312,292 |
| Total Bonds and Debentures | | - | 2,406,692,232 | 54,620,060 | 2,461,312,292 |
| Total assets | | - | 2,406,692,232 | 54,620,060 | 2,461,312,292 |

Amounts have been reclassified to correct the presentation of unquoted investments of \$54.6 million representing Level 3 bonds, that were previously included as a component of quoted investments

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14. The following table shows fair values of debt securities held at December 31 by contractual maturity:

| <i>Bonds and Debentures</i> | <i>for the years ended December 31</i> | 2020 | 2019 |
|---------------------------------|----------------------------------------|----------------------|----------------------|
| | Due within one year | 70,327,543 | 162,246,341 |
| | Due after one year through five years | 664,536,133 | 633,765,805 |
| | Due after five years through ten years | 443,420,787 | 374,116,742 |
| | Due after ten years | 1,216,191,035 | 1,291,183,404 |
| | Total | 2,394,475,498 | 2,461,312,292 |

15. The below table sets forth the related party transactions reflected in the Statement of Income. All related party transactions are with Zurich affiliate companies.

| <i>Statement of Income</i> | <i>for the year ended December 31</i> | 2020 | | |
|--------------------------------|---------------------------------------------------|------------------|------------------|--------------|
| | | Affiliate | 3rd Party | Total |
| | Line 1 (b) Gross Premium Assumed | (1,098,439) | - | (1,098,439) |
| | Line 2 - Reinsurance Premium Ceded | - | (1,098,439) | (1,098,439) |
| | Line 4 - Increase (decrease) in unearned premiums | 16,477 | - | 16,477 |
| | Line 6 - Other Insurance Income | 485,031 | - | 485,031 |
| | Line 8 - Incurred | (1,579,369) | 1,460,172 | (119,197) |
| | Line 13 - Premiums Ceded | 26,164,546 | 3,311,545 | 29,476,091 |
| | Line 22 - Accident and Health Benefits | (178,942,146) | 218,469,838 | 39,527,692 |
| | Line 23 - Commission | (2,172,611) | 2,791,310 | 618,699 |
| | Line 24 - Other | 56,530,220 | - | 56,530,220 |
| | Line 30 - Combined Operating Expense | 2,701,461 | 1,050,997 | 3,752,458 |
| | Line 31 - Combined Investment Income | (1,210,492) | 37,013,217 | 35,802,725 |
| | Line 36 - Combined Realized Gains and Losses | (100,307,916) | 147,408,583 | 47,100,667 |

| <i>Statement of Income</i> | <i>for the year ended December 31</i> | 2019 | | |
|--------------------------------|---------------------------------------------------|------------------|------------------|--------------|
| | | Affiliate | 3rd Party | Total |
| | Line 1 (b) Gross Premium Assumed | 486,601,615 | - | 486,601,615 |
| | Line 2 - Reinsurance Premium Ceded | - | 486,601,615 | 486,601,615 |
| | Line 4 - Increase (decrease) in unearned premiums | 56,706 | - | 56,706 |
| | Line 6 - Other Insurance Income | 121,448 | - | 121,448 |
| | Line 8 - Incurred | 401,882,079 | (401,744,164) | 137,915 |
| | Line 9 - Commission and Brokerage | - | (6,713) | (6,713) |
| | Line 13 - Premiums Ceded | 29,837,922 | 3,640,130 | 33,478,052 |
| | Line 22 - Accident and Health Benefits | (185,166,322) | 224,202,162 | 39,035,840 |
| | Line 23 - Commission | (2,937,733) | 3,150,270 | 212,537 |
| | Line 24 - Other | 56,662,656 | - | 56,662,656 |
| | Line 30 - Combined Operating Expense | 2,029,263 | 1,595,798 | 3,625,061 |
| | Line 31 - Combined Investment Income | (1,176,986) | 73,542,507 | 72,365,521 |
| | Line 36 - Combined Realized Gains and Losses | (111,782,132) | 123,768,648 | 11,986,516 |

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Included in combined operating expense is \$2.7 million (2019 - \$2.0 million) of expenses allocated from a Zurich affiliated company. The allocation is based primarily on the usage by the company of facilities and other administrative services provided by or for the affiliate. The Company has investment management fee agreements with Zurich affiliated companies. Aggregated management fee expenses during year under such agreements were \$1.4 million (2019 - \$1.2 million).

Related party transactions relating to the balance sheet are disclosed on the notes to the consolidated balance sheet below.

16. Not applicable.
17.
 - (a) The Company utilizes reinsurance and retrocessional agreements to reduce its exposure to risk of loss. These agreements provide for recovery of a portion of losses and expenses from reinsurers and retrocessionaires. The Company remains liable to the extent the reinsurers and retrocessionaires do not meet their obligations under these agreements and therefore provisions are made for amounts considered potentially uncollectible.
 - (b) The Company continually monitors its positions with, and the credit quality of counterparties to its financial instruments. The counterparties to these instruments expose the Company to credit loss in the event of nonperformance. As at December 31, 2020 the Company did not anticipate any nonperformance.

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17. (c) On April 16, 2019, the Company entered into a Loss Portfolio Transfer (LPT) retrocessional agreement with a third party, Cavello Bay Reinsurance Limited (Cavello Bay). Cavello Bay is a Bermuda domiciled reinsurer and indirect wholly owned subsidiary of Enstar Group Limited. The LPT comprises of the transfer of mostly U.S. asbestos and environmental liability insurance portfolios predating 1987 written by an affiliate Zurich American Insurance Company (ZAIC) and its subsidiaries. Under the LPT agreement, ZAIC cedes under an intra-group underlying reinsurance agreement, and the Company assumes up to a USD 1 billion limit of liability. The Company immediately entered into a retrocession agreement with Cavello Bay which reinsures, the same liabilities under the LPT retrocessional agreement, subject to the same limit. The Company does not retain any insurance exposure to the portfolio as the risk assumed is simultaneously retroceded to Cavello Bay. The transaction was approved by the Bermuda Monetary Authority on May 22, 2019 and the approval of the underlying reinsurance agreement by ZAIC's regulator, the New York State Department of Financial Services was received on September 3, 2019. The contract came into effect on October 1, 2019.

As part of the LPT agreement, Cavello Bay is required to provide additional collateral to the Company in the form of a supplementary trust covering an additional 24% of the reserves. The trust asset for the benefit of the Company has a carrying value of \$55.0 million (2019 - \$81.5 million) as at December 31, 2020.

ZAIC paid an additional premium to the Company of \$3.9 million above the premium agreed with Cavello Bay primarily to cover the cost of capital within the Company. This additional premium is deferred and will be earned over the life of the portfolio.

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Notes to the Consolidated Balance Sheet

1. Fixed maturities and cash and cash equivalents with a carrying value of \$2,037.3 million (2019: \$2,088.8 million) and \$25.2 million (2019: \$11.9 million) respectively at December 31, 2020 were on deposit in various trust accounts for the benefit of reinsurance contract holders.
- 2-3. See General Notes to the Financial Statements Note 4(f) and 17(c).
4. Advances to affiliates pertain to the \$10.0 million loan to an affiliate which is due to mature on October 29, 2021 and is carried at cost. Interest is computed at 0.76800% per annum and is payable on maturity date.
5. Not applicable.
6. Policy loans are stated at the aggregate of the unpaid loan balances, which are not in excess of the cash surrender values of the related policies.
- 7-8. Not applicable.
9. Investment income due and accrued is \$17.3 million (2019: \$18.9 million).
10. (a) Not applicable.
(b) The accounts and premiums receivable balance with affiliates is \$46.3 million (2019: \$46.3 million).
11. Not applicable.
12. The funds held by ceding reinsurers include balances held by affiliates of \$17.8 million (2019: \$23.9 million).

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13. (a) Sundry assets mainly relates to income tax receivable balance of \$10.1 million (2019: \$0.3 million).

Sundry assets also includes deferred income tax position of \$4.2 million (2019 – reported under Line 31b). The following table shows the details of the deferred income tax position. See General Note 4(i).

| <i>Deferred income taxes</i> | <i>for the year ended December 31</i> | 2020 | 2019 |
|------------------------------|--------------------------------------------------|------------------|-----------------|
| | Reserves for losses and loss adjustment expenses | 176,176 | 294,390 |
| | Life policy benefits | 5,080,148 | (5,043,911) |
| | Reserves for unearned premium | - | - |
| | Deferred acquisition costs | 8,939,995 | 7,148,769 |
| | Unrealized (gains)/losses on investments | (956,020) | (500,466) |
| | Accruals | 1,727,559 | 2,554,575 |
| | Other | (10,756,605) | (4,488,249) |
| | Deferred income taxes | 4,211,253 | (34,892) |

(b) Not applicable.

14. Not applicable.

16. See General Notes to the Financial Statements Note 4(a). The unearned premium balance with affiliates is \$0.1 million (2019: \$0.1 million) as at December 31, 2020.

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17. a) Movements in the General Business loss and loss expense provisions for the current and previous years are summarized as follows:

| As at December 31 <i>expressed in United States Dollars</i> | 2020 | 2019 |
|-----------------------------------------------------------------------|--------------------|--------------------|
| Gross loss and loss expense provisions at beginning of year | 430,023,807 | 47,426,888 |
| Less: Reinsurance recoverable at beginning of year | 425,830,811 | 43,062,000 |
| Net loss and loss expense provisions at beginning of year | 4,192,996 | 4,364,888 |
| Net losses incurred and net loss expenses incurred related to: | | |
| Current year | 0 | 324,108 |
| Prior years | (119,197) | (186,193) |
| Total net incurred losses & loss expenses | (119,197) | 137,915 |
| Net losses and loss expenses paid or payable related to: | | |
| Current year | 0 | 0 |
| Prior years | (13,799) | (309,807) |
| Total losses and loss expenses paid or payable | (13,799) | (309,807) |
| Foreign exchange and other | 0 | 0 |
| Net loss and loss expense provisions at end of year | 4,060,000 | 4,192,996 |
| Add: Reinsurance recoverable at end of year | 348,748,049 | 425,830,811 |
| Gross loss and loss expense provisions at end of year | 352,808,049 | 430,023,807 |

Increase in gross loss and loss expense provision and reinsurance recoverable in 2019 was mainly driven by the LPT from October 1, 2019 [see General Notes to the Financial Statements Note 17(c)]. Gross loss and loss expense provision from the LPT is \$314.0 million (2019 - \$387.3 million) from ZAIC of which the entire amount is retroceded to Cavello Bay.

b) The Company is currently in a managed run-off, therefore, it is expected to experience changes in the net losses incurred and net loss expenses incurred related to prior years. No significant movement in 2020. Written premium of -\$1.1 million mainly relates to premiums adjustment from the revised valuation of the LPT (see Note 17c). This premium adjustment was simultaneously retroceded to Cavello Bay.

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- c) Fixed maturities and cash and cash equivalents with a carrying value of \$347.1 million (2019: \$411.9 million) and \$10.4 million (2019 - \$0.9 million) respectively at December 31, 2020 were on deposit in various trust accounts for the benefit of reinsurance contract holders. All other amounts were unsecured.
- 20-21. See General Notes to the Financial Statements Note 4(d).
22. Not applicable.
23. See General Notes to the Financial Statements Note 4(d).
- 24-26. Not applicable.
27. a) Fixed maturities and cash and cash equivalents with a carrying value of \$1,690.1 million (2019: \$1,676.4 million) and \$14.8 million (2019: \$10.9 million) respectively at December 31, 2020 were on deposit in various trust accounts for the benefit of policyholder obligations.
- b) There are no unsecured policyholder obligations.
28. Insurance and reinsurance payable balance to affiliates is \$0.7 million (2019: \$0.3 million).
- 29-30. Not applicable.
31. (a) Not applicable.
- (b) Refer to Note 13(a)
32. Amounts due to affiliates are unsecured, interest free and have no specific terms of repayment.
33. The accounts payable and accrued liabilities are \$1.6 million (2019: \$2.3 million).
34. Funds held under reinsurance contracts to affiliates is \$1,424.8 million (2019: \$1,492.9 million).
35. Not applicable.

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36. (a) Sundry liabilities mainly relates to deferred gain from the LPT [see General Notes to the Financial Statements Note 17(c)] of \$3.3 million (2019 - \$3.8 million) and net payable on investment purchased of \$4.4 million (2019 - \$4.7 million) to be offset by cash on account.
- (b) In the normal course of business, the Company enters into reinsurance contracts that include funds withheld balances where interest is earned based on a portfolio of investments which meet criteria which require application of the prescriptions in IFRS 4 governing embedded derivatives. These accounting regulations require that derivatives embedded in reinsurance contracts be separated from the underlying insurance contract (“host contract”) according to the conditions specified in IFRS 4 and IAS 39 and recognised separately at fair value in accordance with IAS 39. These embedded derivatives are in the form of total return swaps. The fair value of the unrealized losses is estimated at \$301.2 million (2019: \$200.9 million) as at December 31, 2020, and is recorded in derivatives in the liability section of the consolidated balance sheets.
37. Not applicable.

Notes to the Consolidated Statement of Income

6. Other insurance income relates to amortization of the deferred gain from the LPT [see General Notes to the Financial Statements Note 17(c)].
15. Not applicable.
32. Not applicable.
36. The amount comprises of net gains and losses on the sale of quoted and unquoted bonds, and any impairment on quoted or unquoted investments and the unrealized gains and losses on securities classified as trading.

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Notes to the Consolidated Statement of Capital and Surplus

1. (a) Authorized capital

- (a) Authorized capital stock is comprised of 370,000 voting common shares of \$1 par value each.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.

Issued capital

- (a) Issued, called up and fully paid 370,000 voting common shares of \$1 par value each.
- (b) Not applicable.
- (c) Not applicable.

Issued share capital

- (a) Not applicable, no shares were repurchased in 2020 and 2019.

1. (b) Contributed Surplus

There are no changes in contributed surplus during the relevant year.

- 2. (c) (a) No changes were made to authorized capital stock during the year.
- (b) Not applicable.
- (c) Not applicable.