



# Arthur Morris & Company Limited

Chartered Professional Accountants

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**May 31, 2021**

## **Report of Independent Auditors**

### **To the Board of Directors of Claddaugh Casualty Insurance Company Ltd.**

We have audited the accompanying condensed financial statements of Claddaugh Casualty Insurance Company Ltd. (the “Company”), which comprise the condensed balance sheets and condensed statements of capital and surplus as of December 31, 2020 and December 31, 2019, and the related condensed statements of income for the years then ended, and the related notes to the condensed financial statements.

#### **Management’s responsibility for the condensed financial statements**

Management is responsible for the preparation and fair presentation of the condensed 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the condensed 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 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 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 U.S. generally accepted accounting principles**

As described in Note 4 of the condensed financial statements, the condensed 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 accounting principles generally accepted in the United States of America.


The effects on the condensed financial statements of the variances between the regulatory basis of accounting described in Note 4 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**Adverse opinion on U.S. generally accepted accounting principles**

In our opinion, because of the significance of the matter discussed in the “Basis for adverse opinion on U.S. generally accepted accounting principles” paragraph, the condensed financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2020 and December 31, 2019, or the results of its operations or its cash flows for the years then ended.

**Opinion on regulatory basis of accounting**

In our opinion, the condensed financial statements referred to above present fairly, in all material respects, the financial position of Claddaugh Casualty Insurance Company Ltd. as of December 31, 2020 and December 31, 2019, and the results of its operations for the years then ended in accordance with the financial reporting provisions of the Legislation described in Note 4.

A handwritten signature in cursive script that reads "Arthur Morris + Company Limited". The signature is written in black ink and is positioned above the printed name of the firm.

**Chartered Professional Accountants  
Hamilton, Bermuda**

**CONDENSED CONSOLIDATED BALANCE SHEET**

Claddaugh Casualty Insurance Company Ltd.

As at December 31, 2020

expressed in

United States Dollars

LINE No.		2020	2019
1.	CASH AND CASH EQUIVALENTS	47,019,790	30,937,173
2.	QUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity		
	ii. Other		
(b)	Total Bonds and Debentures	-	-
(c)	Equities		
	i. Common stocks		
	ii. Preferred stocks		
	iii. Mutual funds		
(d)	Total equities	-	-
(e)	Other quoted investments		
(f)	Total quoted investments	-	-
3.	UNQUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity		
	ii. Other		
(b)	Total Bonds and Debentures	-	-
(c)	Equities		
	i. Common stocks		
	ii. Preferred stocks		
	iii. Mutual funds		
(d)	Total equities	-	-
(e)	Other unquoted investments		
(f)	Total unquoted investments	-	-
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	29,978,881	30,811,260
(h)	Total investments in and advances to affiliates	29,978,881	30,811,260
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		
7.	REAL ESTATE:		
(a)	Occupied by the company (less encumbrances)		
(b)	Other properties (less encumbrances)		
(c)	Total real estate	-	-
8.	COLLATERAL LOANS		
9.	INVESTMENT INCOME DUE AND ACCRUED	8,208	55,450
10.	ACCOUNTS AND PREMIUMS RECEIVABLE:		
(a)	In course of collection		
(b)	Deferred - not yet due		
(c)	Receivables from retrocessional contracts		
(d)	Total accounts and premiums receivable	-	-
11.	REINSURANCE BALANCES RECEIVABLE:		
(a)	Foreign affiliates		
(b)	Domestic affiliates		
(c)	Pools & associations		
(d)	All other insurers		
(e)	Total reinsurance balance receivable	-	-
12.	FUNDS HELD BY CEDING REINSURERS		

**CONDENSED CONSOLIDATED BALANCE SHEET**

Claddaugh Casualty Insurance Company Ltd.

As at December 31, 2020

expressed in

United States Dollars

LINE No.		2020	2019
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		
(h)	Deferred Tax Asset	252,020	12,803
(i)	Prepaid Expenses	34,915	28,109
(j)	Income Tax Receivable	342,255	268,873
(k)	Total sundry assets	629,190	309,785
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	77,636,069	62,113,668
	<b>TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS</b>		
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	4,009,558	-
(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	4,009,558	-
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	14,892,137	21,095,523
(b)	Less : Reinsurance recoverable balance		
	i. Foreign affiliates		
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other reinsurers		
(c)	Total reinsurance recoverable balance	-	-
(d)	Net loss and loss expense provisions	14,892,137	21,095,523
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES		
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	18,901,695	21,095,523
	<b>LONG-TERM BUSINESS INSURANCE RESERVES</b>		
20.	RESERVE FOR REPORTED CLAIMS		
21.	RESERVE FOR UNREPORTED CLAIMS		
22.	POLICY RESERVES - LIFE		
23.	POLICY RESERVES - ACCIDENT AND HEALTH		
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	-	-
(b)	Less: Reinsurance recoverable balance on long-term business		
	(i) Foreign Affiliates		
	(ii) Domestic Affiliates		
	(iii) Pools and Associations		
	(iv) All Other Insurers		
(c)	Total Reinsurance Recoverable Balance	-	-
(d)	<b>Total Net Long-Term Business Insurance Reserves</b>	-	-
	<b>OTHER LIABILITIES</b>		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	83,438	6,427,649
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE		
30.	LOANS AND NOTES PAYABLE		
31.	(a) INCOME TAXES PAYABLE		
	(b) DEFERRED INCOME TAXES		
32.	AMOUNTS DUE TO AFFILIATES		

**CONDENSED CONSOLIDATED BALANCE SHEET**

Claddaugh Casualty Insurance Company Ltd.

As at December 31, 2020

expressed in

United States Dollars

LINE No.		2020	2019
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	42,950	51,204
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:		
35.	DIVIDENDS PAYABLE		
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments		
(b)	Segregated accounts companies		
(c)	Deposit liabilities		
(d)	Net payable for investments purchased		
(e)	Other sundry liabilities (specify)		
(f)	Other sundry liabilities (specify)		
(g)	Other sundry liabilities (specify)		
(h)	Total sundry liabilities	-	-
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	-	-

**CONDENSED CONSOLIDATED BALANCE SHEET**

Claddaugh Casualty Insurance Company Ltd.

As at December 31, 2020expressed in United States Dollars

LINE No.		2020	2019
38.	TOTAL OTHER LIABILITIES	126,388	6,478,853
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	19,028,083	27,574,376
<b>CAPITAL AND SURPLUS</b>			
40.	TOTAL CAPITAL AND SURPLUS	58,607,986	34,539,292
41.	TOTAL	77,636,069	62,113,668
		TRUE	TRUE

**CONDENSED CONSOLIDATED STATEMENT OF INCOME**

Claddaugh Casualty Insurance Company Ltd.

As at December 31, 2020  
expressed in United States Dollars

LINE No.		2020	2019
	<b>GENERAL BUSINESS UNDERWRITING INCOME</b>		
1.	GROSS PREMIUMS WRITTEN		
	(a) Direct gross premiums written		
	(b) Assumed gross premiums written	9,691,978	
	(c) Total gross premiums written	9,691,978	-
2.	REINSURANCE PREMIUMS CEDED		
3.	NET PREMIUMS WRITTEN	9,691,978	-
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	(4,009,558)	
5.	NET PREMIUMS EARNED	5,682,420	-
6.	OTHER INSURANCE INCOME		
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	5,682,420	-
	<b>GENERAL BUSINESS UNDERWRITING EXPENSES</b>		
8.	INCURRED	3,778,193	6,580,816
9.	COMMISSIONS AND BROKERAGE		
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	3,778,193	6,580,816
11.	<b>NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS</b>	1,904,227	(6,580,816)
	<b>LONG-TERM BUSINESS INCOME</b>		
12.	GROSS PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Direct gross premiums and other considerations		
	(b) Assumed gross premiums and other considerations		
	(c) Total gross premiums and other considerations	-	-
13.	PREMIUMS CEDED		
14.	NET PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Life		
	(b) Annuities		
	(c) Accident and health		
	(d) Total net premiums and other considerations	-	-
15.	OTHER INSURANCE INCOME		
16.	TOTAL LONG-TERM BUSINESS INCOME	-	-
	<b>LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES</b>		
17.	CLAIMS - LIFE		
18.	POLICYHOLDERS' DIVIDENDS		
19.	SURRENDERS		
20.	MATURITIES		
21.	ANNUITIES		
22.	ACCIDENT AND HEALTH BENEFITS		
23.	COMMISSIONS		
24.	OTHER		
25.	TOTAL LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES	-	-
26.	INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES):		
	(a) Life		
	(b) Annuities		
	(c) Accident and health		
	(d) Total increase (decrease) in policy reserves	-	-
27.	TOTAL LONG-TERM BUSINESS EXPENSES	-	-
28.	<b>NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS</b>	-	-
29.	<b>COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS</b>	1,904,227	(6,580,816)

**CONDENSED CONSOLIDATED STATEMENT OF INCOME**

Claddaugh Casualty Insurance Company Ltd.

As at December 31, 2020  
expressed in United States Dollars

LINE No.		2020	2019
	<b>UNDERNOTED ITEMS</b>		
30.	COMBINED OPERATING EXPENSE		
	(a) General and administration	170,124	259,172
	(b) Personnel cost		
	(c) Other		
	(d) Total combined operating expenses	170,124	259,172
31.	COMBINED INVESTMENT INCOME - NET	185,955	947,407
32.	COMBINED OTHER INCOME (DEDUCTIONS)		
33.	COMBINED INCOME BEFORE TAXES	1,920,058	(5,892,581)
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current	710,050	(1,408,247)
	(b) Deferred	(239,217)	(36,315)
	(c) Total	470,833	(1,444,562)
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	1,449,225	(4,448,019)
36.	COMBINED REALIZED GAINS (LOSSES)		
37.	COMBINED INTEREST CHARGES		
38.	NET INCOME	1,449,225	(4,448,019)



**CONDENSED CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS**

Claddaugh Casualty Insurance Company Ltd.

As at December 31, 2020  
expressed in United States Dollars

LINE No.		2020	2019
1.	<b>CAPITAL:</b>		
(a)	Capital Stock		
	(i) Common Shares		
	authorized	120,000	120,000
	value	\$ 1,000	
	fully paid	120,000	
		shares of par	each issued and
			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		
		shares of par	each issued
(b)	Contributed surplus	62,546,852	39,927,383
(c)	Any other fixed capital		
	(i) Hybrid capital instruments		
	(ii) Guarantees and others		
	(iii) Total any other fixed capital	-	-
(d)	Total Capital	62,666,852	40,047,383
2.	<b>SURPLUS:</b>		
(a)	Surplus - Beginning of Year	(5,508,091)	(1,060,072)
(b)	Add: Income for the year	1,449,225	(4,448,019)
(c)	Less: Dividends paid and payable		
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments		
(e)	Add (Deduct) change in any other surplus		
(f)	Surplus - End of Year	(4,058,866)	(5,508,091)
3.	<b>MINORITY INTEREST</b>		
4.	<b>TOTAL CAPITAL AND SURPLUS</b>	58,607,986	34,539,292

CLADDAUGH CASUALTY INSURANCE COMPANY LTD.  
NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020

PART I: GENERAL NOTES TO THE FINANCIAL STATEMENTS

1. Claddaugh Casualty Insurance Company Ltd. (the “Company”) was incorporated under the laws of Bermuda on May 6, 2008. The Company is a wholly-owned subsidiary of HCI Group, Inc. (the “Parent”) (formerly known as Homeowner’s Choice, Inc.), a company incorporated in the United States of America. The Company is registered under and regulated by the Insurance Act 1978 and its related regulations.
2. Effective December 31, 2017, Homeowners Choice Property & Casualty Insurance Company, Inc. entered into an Adverse Loss Development contract with the Company. The contract covers incurred losses, including IBNR, on Homeowners and Dwelling Fire lines of business occurring prior to January 1, 2018, but not paid until January 1, 2018 or after. The policy’s retention is \$70 million and the aggregate limit is \$30 million. This policy was commuted on April 1, 2021.

On June 1, 2020, the Company entered into the following policies:

- Property Catastrophe First Excess of Loss Reinsurance Contract covering \$34M xs of \$16M for the first layer program of Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company for a maximum exposure of \$68M. The Company’s participation is 40.5%;
  - Reinstatement Premium Protection Reinsurance Contract - The Company may become liable to pay under the reinstatement provisions of the Working Layer Cat XOL Reinsurance Contract issued to Homeowners Choice and TypTap for a maximum exposure is \$16.625M. The Company’s participation is 11.458%; and
  - Reinstatement Premium Protection Reinsurance Contract – the Company may become liable to pay under the reinstatement provisions of the Property Catastrophe First Excess of Loss Reinsurance issued to Homeowners Choice and TypTap a maximum exposure of \$13.6M. The Company’s participation is 65.7227059%.
3. The condensed 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 general purpose financial statements are based on United States of America Generally Accepted Accounting Principles (“US GAAP”) but are in accordance with the reporting requirements of the Legislation, which varies in certain respects from US GAAP.
  4. The financial statements are prepared in accordance with the Insurance Act 1978, as amended by the Insurance Amendment Act 1995, and reflect the following policies:
    - (a) Premiums

Premiums are earned on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums.

CLADDAUGH CASUALTY INSURANCE COMPANY LTD.  
NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020

PART I: GENERAL NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(b) Losses and loss expense provisions

The reserve for losses and loss adjustment expenses comprises estimates for specific case reserves and losses incurred but not reported. Specific case reserves are recorded upon notification of a claim impacting the layers underwritten by the Company. Losses incurred but not reported reserve is established based on recommendations of an independent actuary using past loss experience and case basis evaluation.

Although management believes the reserve is reasonable, the ultimate cost of settlement of claims may vary materially from the amount recorded. Future adjustments to the amounts recorded as at December 31, 2020, resulting from the continual review process, as well as differences between estimates and ultimate settlements, will be reflected in the Company's statement of operations in future periods when such adjustments become known.

(c) Cash and cash equivalents

Cash and cash equivalents comprise money market funds that are highly liquid and readily convertible into a known amount of cash.

(d) Federal income taxes

The Company accounts for income taxes under Accounting Standards Codification No. 740 "Accounting for Income Taxes" ("ASC 740"). Under the asset and liability method of ASC No. 740, deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date and deferred tax assets are recognised if it is more likely than not that a benefit will be realised.

(e) Interest income

Interest income is recorded on an accrual basis.

5. Income is recognised on the following basis:

Premium income - See Part I note 4 (a)

Commission income – N/A

Interest income – See Part I note 4 (e)

6-15 Not applicable

CLADDAUGH CASUALTY INSURANCE COMPANY LTD.  
NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020

PART I: GENERAL NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. See Part I note 2 – Adverse Loss Development contract was commuted on April 1, 2021

Since the outbreak of COVID-19 in the first quarter of 2020, global financial markets have experienced, and may continue to experience significant volatility and there are significant consequences for the global economy from travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The extent and duration of the impact of COVID-19 on the global economy and the sectors in which the Company, its parent and its policyholders operate is uncertain at this time. Management, under the oversight of the Board of Directors, has performed an assessment of the potential effects of COVID-19 on the Company's operations and related financial performance through May 31, 2021. This assessment included consideration of: the Company's exposure to losses on its investment portfolio; the Company's exposure to COVID 19 related insurance claims; and the Company's continued ability to meet its statutory solvency and liquidity ratio requirements through May 31, 2021. As a result of this assessment management has ultimately concluded that as at May 31, 2021 the Company's financial performance has not been significantly impacted by the COVID-19 outbreak and it will continue to monitor the situation and any potential future impact on the Company. Furthermore management has taken measures to preserve the Company's operations and the health and safety of its employees through enactment of its business continuity plan and it has assessed the Company's relationship with all critical third party suppliers and service providers and taken appropriate mitigation actions where necessary.

17. None.

PART II: NOTES TO THE CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS

1. (a) Capital Stock

Authorised, issued and fully paid 120,000 common shares of par value \$1 each.

- (b) The Company received a cash contribution of \$22,619,469 from its Parent on August 17, 2020.

2. (c) Not applicable.

PART III: NOTES TO THE CONSOLIDATED BALANCE SHEET

1. The Company has entered into a trust agreement with HCI Group Inc. to establish a trust account which secures the Company's obligations. The Company is required to have assets in the trust account which HCI Group, Inc. can draw upon to settle claims or other balances due. Cash and cash equivalents with a fair value of \$46,583,295 (2019: \$30,366,603) were held in the trust account as of December 31, 2020.

2-3. Not applicable.

4. Amounts advanced to affiliates are interest free, unsecured and have no fixed terms of repayments.

5-8. Not applicable.

9. Accrued interest from investments held is \$8,208.

10. The balance of accounts and premiums receivable is \$0 (2019:\$0).

CLADDAUGH CASUALTY INSURANCE COMPANY LTD.  
 NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2020

11-12. Not applicable.

PART III: NOTES TO THE CONSOLIDATED BALANCE SHEET (CONTINUED)

13. Sundry assets are composed of deferred tax asset amount of \$252,020 (2019: \$12,803). Prepaid expenses represent prepaid secretarial fee, management fee and out of pocket expenses in the amount of \$34,915 (2019: \$28,109). Income tax receivable amount of \$342,255 (2019: \$268,873).

14. Not applicable.

16. See Part 1 note 4(a).

17. The following table provides a reconciliation of the activity in the reserves for insurance losses and loss adjustment expenses.

	2020	2019
Gross/Net loss and loss expense provisions at beginning of year	\$21,095,523	\$28,258,248
Net losses incurred and net loss expenses incurred related to:		
Current year	4,263,698	-
Prior years	<u>(485,505)</u>	<u>6,580,815</u>
Total net incurred losses & loss expenses	<u>3,778,193</u>	<u>6,580,815</u>
Net losses and loss expenses paid or payable related to:		
Current year	-	-
Prior years	<u>(9,981,579)</u>	<u>(13,743,540)</u>
Total losses and loss expenses paid or payable	<u>(9,981,579)</u>	<u>(13,743,540)</u>
Gross/Net loss and loss expense provisions at end of year	<u>\$14,892,137</u>	<u>\$21,095,523</u>

(b) No premium adjustments were made. Gross loss and loss expense provisions have decreased by \$485,505 (2019 Increase: \$6,580,815) from last year. The decrease is mainly due to the decrease in IBNR for Hurricane Matthew losses.

(c) Not applicable.

20-27. Not applicable.

28. The insurance and reinsurance balances payable of \$83,438 represents loss payable to the Parent.

29. Commissions and Fees payable for 2020 are \$0 (2019: \$0)

30. Not applicable.

CLADDAUGH CASUALTY INSURANCE COMPANY LTD.  
 NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2020

31. The Company made an irrevocable election under Section 953(d) of the Internal Revenue Code of 1986, as amended, to treat the Company as a domestic insurance company for United States federal income tax purposes. As a result of the “domestic election”, the Company is subject to U.S. taxation on its worldwide income as if it were a U.S. corporation.

The Company and its Parent file a consolidated federal income tax return and the balance owing, or recoverable, is paid by or paid to, the Parent company. Income tax expense in the Company’s statement of income and retained earnings has been allocated under Internal Revenue Code Section 1552(a) (2).

PART III: NOTES TO THE CONSOLIDATED BALANCE SHEET (CONTINUED)

The components of income tax expense are as follows:		
	2020	2019
Current income tax expense (benefit)	\$ 710,050	\$ (1,408,247)
Deferred income tax expense (benefit)	<u>(239,217)</u>	<u>(36,315)</u>
	<u>\$ 470,833</u>	<u>\$ (1,444,562)</u>
The component of income tax payable are as follows:		
	2020	2019
Current income tax payable (receivable)	<u>\$ (342,255)</u>	<u>\$ (268,873)</u>

32. Not applicable.
33. Accounts payable and accrued expenses in the amount of \$42,950 represents the accrued actuarial fee, and audit fee.
- 34-37. Not applicable.

PART IV: NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

6. Not applicable.
15. Not applicable.
32. Not applicable.
36. Not applicable.