

FINANCIAL STATEMENTS

Nomura Americas Re Ltd.

For the years ended March 31, 2022 and 2021

Nomura Americas Re Ltd.
Financial Statements
For the years ended March 31, 2022 and 2021

Contents

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

Report of Independent Auditors

Shareholders and Board of Directors
Nomura Americas Re Ltd.

Opinion

We have audited the financial statements of Nomura Americas Re Ltd. (the “Company”), which comprise the statements of financial condition as of March 31, 2022 and 2021, and the related statements of income, changes in shareholders’ equity and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nomura Americas Re Ltd. at March 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that

includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

July 28, 2022

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

	<u>March 31, 2022</u>	<u>March 31, 2021</u>
Assets		
Cash	\$ 47,678,748	\$ 47,255,556
Note receivable from affiliate	901,000,000	877,000,000
Securities received as collateral	901,000,000	877,000,000
Prepaid expenses	80,979	36,313
	<u>1,849,759,727</u>	<u>1,801,291,869</u>
Total assets	\$ 1,849,759,727	\$ 1,801,291,869
Liabilities		
Borrowings from Parent	\$ 901,000,000	\$ 877,000,000
Obligation to return securities received as collateral	901,000,000	877,000,000
Accounts payable & accrued expenses	33,938	146,531
Intercompany payable	3,819,267	3,609,125
	<u>1,805,853,205</u>	<u>1,757,755,656</u>
Total liabilities	1,805,853,205	1,757,755,656
Shareholders' equity		
Share capital	250,000	250,000
Contributed surplus	38,800,000	38,800,000
Retained earnings	4,856,522	4,486,213
	<u>43,906,522</u>	<u>43,536,213</u>
Total shareholders' equity	43,906,522	43,536,213
	<u>1,849,759,727</u>	<u>1,801,291,869</u>
Total liabilities and shareholders' equity	\$ 1,849,759,727	\$ 1,801,291,869

See accompanying Notes to Financial Statements.

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

	Year Ended March 31, 2022	Year Ended March 31, 2021
Revenue		
Stand-by fees earned	\$ 15,863,253	\$ 18,929,956
Stand-by fees ceded	-	(389,312)
Management fees earned	942,390	409,708
Interest income	<u>12,112,128</u>	<u>15,186,408</u>
	28,917,771	34,136,760
Expenses		
Net transfer pricing fees	15,813,519	17,132,295
Interest expense	12,112,128	15,186,408
Management fees	60,000	58,750
Director fees	25,000	25,000
Audit fees	41,125	24,630
Consultancy fees	3,290	2,375
Legal fees	106,780	174,270
Corporate secretary fees	15,471	13,943
Professional fees	173,318	-
Government and licensing fees	41,890	35,065
General expenses	148,904	135,871
Trustee fees charges	2,500	2,500
Travel expenses	1,236	-
Bank charges	2,301	1,788
	<u>28,547,462</u>	<u>32,792,895</u>
Net income	<u>\$ 370,309</u>	<u>\$ 1,343,865</u>

See accompanying Notes to Financial Statements.

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

	<u>Year Ended March 31, 2022</u>	<u>Year Ended March, 31, 2021</u>
Share capital		
Authorised share capital - 250,000 shares of par value \$1 each		
Issued shares, fully paid		
Common shares, beginning of year	250,000	250,000
Issued, fully paid during the year	-	-
	<u>250,000</u>	<u>250,000</u>
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	-	-
	<u>250,000</u>	<u>250,000</u>
Common shares, end of year	<u>\$ 250,000</u>	<u>\$ 250,000</u>
Contributed surplus		
Contributed surplus, beginning of year	\$ 38,800,000	\$ 38,800,000
Contributed surplus received during the year	-	-
	<u>38,800,000</u>	<u>38,800,000</u>
Contributed surplus, end of year	<u>\$ 38,800,000</u>	<u>\$ 38,800,000</u>
Retained earnings		
Retained earnings, beginning of year	\$ 4,486,213	\$ 3,142,348
Net income for the year	370,309	1,343,865
	<u>4,856,522</u>	<u>4,486,213</u>
Retained earnings, end of year	<u>\$ 4,856,522</u>	<u>\$ 4,486,213</u>

See accompanying Notes to Financial Statements.

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

	Year Ended March 31, 2022	Year Ended March 31, 2021
Cash flows from operating activities:		
Net income for the year	\$ 370,309	\$ 1,343,865
Changes in operating assets & liabilities:		
Reinsurance balances receivable	-	722,129
Prepaid expenses	(44,666)	10,369
Accounts payable & accrued expenses	(112,593)	43,981
Deferred stand-by fees revenue	-	(851,014)
Ceded stand-by fees payable	-	(202,079)
Intercompany payable	210,142	(586,035)
Cash provided by operating activities	<u>423,192</u>	<u>481,216</u>
Cash flows from investing activity:		
Note receivable from affiliate	<u>(24,000,000)</u>	<u>(225,000,000)</u>
Cash used in investing activities	<u>(24,000,000)</u>	<u>(225,000,000)</u>
Cash flows from financing activity:		
Borrowings from Parent	<u>24,000,000</u>	<u>225,000,000</u>
Cash provided by financing activities	<u>24,000,000</u>	<u>225,000,000</u>
Net increase in cash	423,192	481,216
Cash, beginning of year	<u>47,255,556</u>	<u>46,774,340</u>
Cash, end of year	\$ <u><u>47,678,748</u></u>	\$ <u><u>47,255,556</u></u>

Total cash paid for interest during the year is \$12.1 million (2021 - \$15.2 million).

Total cash paid for taxes during the year is \$Nil (2021 - \$nil).

Non-cash transactions

Recognition of securities received as collateral	\$ 24,000,000	\$ 225,000,000
Recognition of obligation to return securities received as collateral	(24,000,000)	(225,000,000)

See accompanying Notes to Financial Statements.

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

1. Organization

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

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

2. Summary of Significant Accounting Policies

Use of Estimates

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

Cash

The Company defines cash equivalents to be highly liquid investments with original maturities of three months or less other than those held for trading purposes. At March 31, 2022 and 2021, there were no cash equivalents on the Statements of Financial Condition.

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

Taxation

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

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

Insurance Contracts

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

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

Stand-by fees earned/ceded consists of revenues and expenses arising pursuant to the transactions explained in Note 3. This revenue is recognized on an accrual basis and earned over the contract period in accordance with the contract terms. This revenue is also subject to a transfer pricing arrangement with affiliates (see “Transfer Pricing Arrangement” in Note 4).

Transfers of Financial Assets

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

Notes receivable from affiliate

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

Borrowings from Parent

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

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

Related party transactions

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

Functional and presentation currency

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

Statements of Cash Flows

The indirect method has been applied in the preparation of the Statements of Cash Flows.

New Accounting Pronouncements

No new accounting pronouncements relevant to the Company were adopted during the year ended March 31, 2022.

Allowance for credit loss

The current expected credit loss ("CECL") model requires the measurement of expected credit losses for financial assets measured at amortized cost, using relevant information about past events, including historical credit loss experience on financial assets with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the financial assets. The overall estimate of the allowance for credit losses is based on both quantitative and qualitative considerations.

The Company applied qualitative methods to financial instruments where there is no history of significant credit losses and reasonable expectation of minimal future credit losses and determined a CECL provision was not required.

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

3. Reinsurance Transactions

Since its incorporation, the Company has entered into four US reserve financing transactions (one in 2015, two transactions in 2016 and a transaction in fiscal year 2019, which was subsequently amended) with major US life insurers (each a “US Life Insurer”) and affiliated special purpose entities (each an “SPE”), pursuant to which the respective US Life Insurer has issued to its related SPE surplus notes, in return for an equal principal amount of credit linked notes issued by such SPE. Upon issuance, US Life Insurer holds any credit linked notes as assets to finance its statutory reserves. The relevant credit linked notes will be redeemed in cash in the event that a US Life Insurer has exhausted substantially all assets supporting its respective transaction and the additional funds are required to enable US Life Insurer to make required payments (“Cash Redemption Payment”). A depletion of a US Life Insurer’s assets supporting its respective transaction could occur due to severe adverse developments in respect of the key risks associated with the underlying life insurance policies (mortality, lapse, and asset risk).

Under its contracts with the SPEs, the Company has agreed to fund any Cash Redemption Payments by the SPEs up to a transaction-specific commitment amount, in return for the receipt of fees. At March 31, 2022 such aggregate specified commitment amounts were \$1,230,000,000 (2021 - \$2,047,000,000). No Cash Redemption Payment actions as described above have been triggered as of the balance sheet dates.

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

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

On the effective date of the internal insurance policy, the company received \$1,000,000 from Insurer as deferred stand-by fee revenue. This fee was reported on the Statement of Financial Condition as deferred stand-by fees revenue. During the year ended March 31, 2021, the agreement was terminated and the remaining deferred stand-by fees revenue of \$851,014 was recognized in *Stand-by fees earned* on the Statements of Income.

The fiscal year 2019 transaction includes a structural component whereby an affiliate SPE of the US Life Insurer borrowed an asset from the Company and the Company received collateral from the SPE. The collateral received by the Company is recorded in *Securities received as collateral* and *Obligation to return securities received as collateral*, respectively, on the Statement of Financial Condition. The collateral received by the Company was not repledged as of March 31, 2022.

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

In December 2019, the fiscal year 2019 transaction was amended. In connection with the amended transaction, the Company is paid a quarterly management fee on a portion of the aggregate outstanding reserve financing amount. This management fee is reflected in *Management fees earned* on the Statement of Income. During the year ended March 31, 2022, *Management fees earned* was \$942,390 (2021 - \$409,708).

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.

Although the reinsurance transactions are recognized on an accrual basis, their fair value (net of the internal insurance policy) as of March 31, 2022 was \$9.9 million (2021 - \$18.4 million). This fair value is calculated using unobservable inputs, and is considered a Level 3 measurement under ASC 820, *Fair Value Measurement*.

4. Transactions with Related Parties

One of the directors (the “Horseshoe Director”) of the Company is also an officer of Horseshoe Management Ltd. (“Horseshoe”). From inception, Horseshoe has been the appointed insurance manager of the Company. During the year ended March 31, 2022, the Company recognized management fee expense of \$ 60,000 (2021 - \$58,750), for administrative services provided under the terms of the insurance management agreement with Horseshoe.

The Company has paid a fee of \$25,000 (2021 - \$25,000) for services of an independent director (the “Independent Director”).

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

The Company borrowed \$377 million in fiscal year 2019, \$275 million in fiscal year 2020 and \$225 million in fiscal year 2021 from NHA to purchase notes receivable from an affiliate. During the current fiscal year, the existing notes were terminated and new notes totaling \$901 million were issued. The notes receivable and associated borrowings mature between December 2034 and December 2045 and have an interest rate of SOFR plus a spread.

Nomura Americas Re Ltd.
Notes to Financial Statements
(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:

	2022	2021
Revenue due by the Company	\$ 16,805,643	18,099,339
Capital fee payable to the Company	(333,000)	(464,400)
Expense reimbursement payable to the Company	(659,124)	(502,644)
Net transfer pricing fees	\$ <u>15,813,519</u>	<u>17,132,295</u>

5. Taxation

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

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

As of March 31, 2022, the Company determined that it has no uncertain tax positions, interest or penalties as defined within ASC 740, and accordingly, management has concluded that no additional ASC 740 disclosures are required.

As of March 31, 2022, the Company is subject to examination for tax years ending March 31, 2019 through March 31, 2021 at the federal level. The Company is not currently under audit. The

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

Company does not have unrecognized tax benefits. The Company does not believe that it is reasonably possible that the total amount of unrecognized tax benefits will significantly change within the next 12 months.

6. Share capital and contributed surplus

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

During the year ended March 31, 2022, the Company did not receive any additional contributed surplus (2021 - \$Nil) from its shareholder.

At March 31, 2022, the Company had issued share capital of \$250,000 (2021 - \$250,000) and contributed surplus of \$38,800,000 (2021 - \$38,800,000).

7. Capital and Regulation

The Company is registered as a Class C Insurer under the Act. The Company has a direction from the Bermuda Monetary Authority (the “Authority”) that requires it to maintain a minimum solvency margin (“MMS”) of \$500,000 (2021 - \$500,000). As at March 31, 2022, the statutory capital and surplus of the Company was \$43,825,543 (2021 - \$43,499,900). Accordingly, the Company has met the MMS requirement.

8. Subsequent Events

The Company has evaluated subsequent events through July 28, 2022, the date as of which these financial statements are available to be issued.