

METTLESOME (BERMUDA) LIMITED
Financial Statements

**For the years ended
December 31, 2022 and 2021**

Report of Independent Auditors

The Board of Directors
Mettlesome (Bermuda) Limited

Opinion

We have audited the financial statements of Mettlesome (Bermuda) Limited (the “Company”), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of loss, 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 the Company at December 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.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred losses and loss adjustment expenses, net of reinsurance and the cumulative paid losses and loss adjustment expenses, net of reinsurance for the years ending 2021 and prior and the average annual percentage payout of incurred claims by age disclosed on Note 4, page 12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young Ltd.

Hamilton, Bermuda
April 26, 2023

Mettlesome (Bermuda) Limited
Balance Sheets
December 31, 2022 and 2021
(Expressed in U.S. dollars)

Assets

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 10,635,054	11,075,395
Restricted cash and cash equivalents	98,091,582	55,319,281
Restricted investments at fair value	46,128,641	93,480,979
Receivable for investments sold	17,623	-
Deferred acquisition costs	180,414	396,837
Accrued investment income	638,248	591,741
Prepaid expenses	-	12,645
Total assets	<u>155,691,562</u>	<u>160,876,878</u>

Liabilities

Reinsurance balance Payable	10,983,403	10,264,076
Accounts payable and accruals	296,470	195,645
Intercompany payable	79,358,001	79,358,001
Unearned premiums	24,880	472,675
Reserve for losses and loss adjustment expenses	3,547,824	5,468,341
Total liabilities	<u>94,210,578</u>	<u>95,758,738</u>

Shareholder's Equity

Share capital	120,000	120,000
Additional paid-in capital	50,880,000	50,880,000
Retained earnings	10,480,984	14,118,140
Total shareholder's equity	<u>61,480,984</u>	<u>65,118,140</u>
Total liabilities and shareholder's equity	<u>\$ 155,691,562</u>	<u>\$ 160,876,878</u>

See Notes to the Financial Statements

Mettlesome (Bermuda) Limited
Statement of Loss
For the years ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

	For the Year Ended January 1, 2022 to December 31, 2022	For the Year Ended January 1, 2021 to December 31, 2021
<u>Revenues</u>	<u>2022</u>	<u>2021</u>
Gross premiums written	\$ (356,283)	1,323,287
Change in unearned premiums	447,795	(331,774)
Net premiums earned	<u>91,512</u>	<u>991,513</u>
Net investment income	2,686,076	2,065,470
Net realized (losses)/gains on investments	(5,038,271)	501,315
Net unrealized losses on investments	(2,208,005)	(1,533,137)
Net foreign exchange losses	<u>(321,808)</u>	<u>(5,272)</u>
Total revenues	(4,790,496)	2,019,889
<u>Expenses</u>		
Losses and loss adjustment expenses	(2,349,676)	3,778,077
Acquisition expenses	1,008,627	1,234,265
General and administrative expenses	187,709	192,310
Total expenses	\$ (1,153,340)	5,204,652
Net Loss	<u>\$ (3,637,156)</u>	<u>(3,184,763)</u>

See Notes to the Financial Statements

Mettlesome (Bermuda) Limited
Statement of Changes in Shareholder's Equity
For the years ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

	For the Year Ended January 1, 2022 to December 31, 2022	For the Year Ended January 1, 2021 to December 31, 2021
<u>Share capital</u>	<u>2022</u>	<u>2021</u>
Balance at beginning of period	\$ 120,000	120,000
Issued during the period	-	-
Balance at the end of the period	<u>120,000</u>	<u>120,000</u>
<u>Additional paid-in capital</u>		
Balance at beginning of period	50,880,000	50,880,000
Additions during the period	-	-
Balance at the end of the period	<u>50,880,000</u>	<u>50,880,000</u>
<u>Retained Earnings</u>		
Balance at beginning of period	14,118,140	17,302,903
Net loss	(3,637,156)	(3,184,763)
Dividends paid	-	-
Balance at the end of the period	<u>10,480,984</u>	<u>14,118,140</u>
Total Shareholder's Equity	<u>\$ 61,480,984</u>	<u>\$ 65,118,140</u>

See Notes to the Financial Statements

Mettlesome (Bermuda) Limited
Statement of Cash Flows
For the years ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

	For the Year Ended January 1, 2022 to December 31, 2022	For the Year Ended January 1, 2021 to December
<u>Operating Activities</u>	<u>2022</u>	<u>2021</u>
Net loss	\$ (3,637,156)	(3,184,763)
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized (gains)/losses on investments	5,038,271	(501,315)
Net unrealized losses/(gains) on investments	2,208,005	1,533,137
Net realized and unrealized foreign exchange losses on investments	321,808	4,838
Change in:		
Receivable for investments sold	(17,623)	-
Deferred acquisition costs	216,423	(191,504)
Accrued investment income	(46,507)	109,748
Prepaid Expenses	12,645	(1,132)
Reinsurance balance Payable	719,327	5,070,443
Accounts payable and accruals	100,825	7,445
Payable for investments purchased	-	(5,763,140)
Unearned premiums	(447,795)	331,774
Reserve for losses and loss adjustment expenses	(1,920,517)	(1,657,824)
Net cash provided by/(used in) operating activities	<u>2,547,706</u>	<u>(4,242,293)</u>
<u>Investing Activities</u>		
Purchase of investments	(25,990,324)	(41,330,116)
Proceeds from sales of investments	<u>65,774,577</u>	<u>59,185,772</u>
Net cash provided by investing activities	<u>39,784,254</u>	<u>17,855,656</u>
<u>Financing Activities</u>		
Intercompany payable	-	(20,000,000)
Net cash (used in)/provided by financing activities	<u>-</u>	<u>(20,000,000)</u>
(Decrease)/increase in cash, cash equivalents and restricted cash	42,331,960	(6,386,639)
Cash, cash equivalents and restricted cash at beginning of the period	<u>66,394,676</u>	<u>72,781,315</u>
Cash, cash equivalents and restricted cash at end of period	<u><u>\$ 108,726,636</u></u>	<u><u>66,394,676</u></u>

See Notes to the Financial Statements

Mettlesome (Bermuda) Limited
Notes to Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

1. General

Mettlesome (Bermuda) Limited (the "Company") was incorporated under the laws of Bermuda on January 18, 2017, and is a wholly owned subsidiary of Mettlesome Investments (Cayman) I Limited (the "Parent"). The Parent is incorporated in the Cayman Islands. The ultimate holding company of the Company is Fosun Holdings Limited and Fosun International Holdings Ltd., which are incorporated in Hong Kong and the British Virgin Islands, respectively. The ultimate controlling shareholder is Mr. Guo Guangchang.

On May 1, 2017 the Company entered into respective loss portfolio transfer and quota share reinsurance agreements ("the Reinsurance Agreements") with Ironshore Indemnity Inc., a Minnesota domiciled property and casualty insurance company and Ironshore Specialty Insurance Company, an Arizona domiciled property and casualty insurance company, (collectively, the "Ceding Companies"). Under the Reinsurance Agreements, the Ceding Companies ceded reinsured liabilities to the Company on a one hundred percent (100%) indemnity reinsurance basis.

The reinsured liabilities relate to surety bonds written by the Ceding Companies.

The Company is registered as a Class 3A insurer under The Insurance Act 1978 in Bermuda, related regulations and amendments thereto (the "the Act"). The Company was registered by the Bermuda Monetary Authority (the "BMA") effective April 25, 2017, and commenced operations on May 1, 2017. The Company shall not, without obtaining the prior written approval of the BMA, enter into "insurance business", as such expression is understood in the Act, other than the loss portfolio transfer and prospective quota share reinsurance agreements with the Ceding Companies.

These financial statements cover the year ended December 31, 2022. The comparable period last year was from January 1, 2021 to December 31, 2021.

2. Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of estimates in financial statements

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes that the amounts included in the financial statements reflect its best estimates and assumptions, actual results could differ from those estimates.

Mettlesome (Bermuda) Limited
Notes to Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

2. Significant Accounting Policies (continued)

Premiums and related expenses

Reinsurance premiums are earned based on information received from ceding companies over the period during which the Company are exposed to the underlying risk. Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force.

Acquisition expenses

Acquisition expenses vary with and are directly related to the acquisition of reinsurance contracts and consist primarily of fees and commissions paid to brokers, underwriting fees paid to the Company liability manager and premium taxes. Premiums receivable are presented net of applicable acquisition costs when contract terms provide for the right of offset.

Total acquisition costs are deferred and charged to expense as the related premium is earned. Anticipated losses and loss expenses, other costs and investment income related to these premiums are considered in assessing the recoverability of the deferred acquisition costs. If deferred amounts are estimated to be unrecoverable, they are expensed.

Reserves for losses and loss adjustment expenses

Loss reserves include reserves for unpaid reported losses and for losses incurred but not reported. The reserve for unpaid reported losses and loss expenses is established by management based on reports from the Ceding Companies and represents the ultimate cost of events or conditions that have been reported to the Company. The reserves for incurred but not reported losses and loss adjustments expenses is established by management based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors that vary significantly as claims are settled. Accordingly, ultimate losses and loss expenses may differ materially from the amounts recorded in the financial statements.

Investments

The Company has elected the fair value option for its investments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 825 "*Financial Instruments*". As a result, the Company's investments are carried at fair value with changes in fair value included in earnings in the statement of income. The fair value of the Company's investments is based on quoted market prices, or when such prices are not available, by reference to broker or underwriter bid indications, industry recognized pricing vendors, and/or internal pricing valuation techniques. Investment transactions are recorded on a trade date basis with balances pending settlement included in receivables for investments sold/payable for investments purchased in the balance sheet. Realized gains and losses are determined using cost calculated on a specific identification basis. Dividends are recorded on the ex-dividend date. Income and expenses are recorded on the accrual basis including interest and premiums amortized and discounts accreted.

Mettlesome (Bermuda) Limited
Notes to Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

2. Significant Accounting Policies (continued)

The Company determines the fair value of financial instruments in accordance with current accounting guidance, which defines fair value and establishes a three level fair value hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Fair value is defined as the price that the Company would receive to sell an asset or would pay to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines the estimated fair value of each individual security utilizing the highest level inputs available.

Fair value measurement

The fair value of the Company's assets and liabilities, which qualify as financial instruments, approximates the carrying amounts presented in the balance sheet.

Cash and cash equivalents

Cash and cash equivalents include cash and investments with original maturities of three months or less.

Short-term investments

Short-term investments, consisting of money market funds, are managed as part of the Company's investment portfolio. The funds have an average maturity of more than 3 months, and are carried at cost, which approximates fair value.

Foreign exchange

The Company's reporting currency is the United States Dollar (U.S. dollar). Monetary assets and liabilities other than the Company's reporting currency are revalued at the prevailing exchange rate at the balance sheet date and revenues and expenses denominated in foreign currencies are recorded using transaction-specific rates during the period, as appropriate. The Company's reporting currency is determined based on its operating environment and its underlying cash flows. Foreign exchange gains and losses are included in the statements of income in the period incurred.

Restricted cash, cash equivalents and investments

Restricted cash, cash equivalents and investments consist of cash, cash equivalents and investments, as applicable, held in trust accounts to secure the Company's obligations to insurance agreements.

Restricted investments

The Company records its restricted investments in accordance with Financial Accounting Standards Board ("FASB") ASC Topic 825, Financial Instruments. The Company believes that this method provides the most transparent value for these restricted investments. Since electing the fair value option, all of the Company's fixed maturity restricted investments have been classified as trading securities and carried at fair value, with changes in fair value included in earnings in the statements of loss. Fair values of restricted investments are based on quoted market prices, or when such prices are not available, by reference to broker bid indications and/or external pricing valuation techniques. Restricted investment securities are recorded on a trade date basis. Investment income is recognized when earned and includes the accrual of discount or amortization of premium on fixed maturity restricted investments using the effective yield method and is net of related expenses.

Mettlesome (Bermuda) Limited
Notes to Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

2. Significant Accounting Policies (continued)

Restricted investments (continued)

Interest income for fixed maturity restricted investments is accrued and recognized based on the contractual terms of the fixed maturity restricted investments and is included in net investment income in the statements of loss. Realized gains and losses on the disposition of restricted investments, which are based upon the specific method of identification, are included in net investment income in the statements of loss.

3. Cash, Cash Equivalents and Restricted Cash

The follow table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 10,635,054	\$ 11,075,395
Restricted cash and cash equivalents held for collateral	<u>98,091,582</u>	<u>55,319,281</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 108,726,636</u>	<u>\$ 66,394,676</u>

Restricted cash and cash equivalents held for collateral include two trust accounts, used for purchasing cash equivalent investments that need to be held as per insurance agreements.

Mettlesome (Bermuda) Limited
Notes to Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

4. Reserve for losses and loss adjustment expenses

The following table presents a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses:

	2022	2021
Reserves for losses and loss adjustment expenses, beginning of the period	\$ 5,468,341	\$ 7,126,165
Acquisition of loss reserves	-	-
Losses and loss adjustment expenses incurred for the period related to:		
Current period	130,628	228,373
Prior period	(2,480,304)	3,549,704
Subtotal	(2,349,676)	3,778,077
Losses and loss adjustment expenses paid for the period related to:		
Current period	(37,914)	(57,389)
Prior period	467,073	(5,378,512)
Subtotal	429,159	(5,435,901)
Reserves for losses and loss adjustment expenses, end of period	\$ 3,547,824	\$ 5,468,341

For the year ended December 31, 2022, the Company reported net favorable development on losses incurred related to prior years of \$2,480,304. The Company wrote two loss portfolio transfer and prospective quota share reinsurance contracts that provide protection against adverse development on loss originating from multiple accident years. The Company has retroactive exposure within these contracts and provides prospective coverage. The information below includes loss and loss adjustment expenses incurred, net and loss and loss adjustment expenses paid, net, by accident year for the Company's retroactive reinsurance contracts presented by year of inception of the retroactive reinsurance contracts.

Cumulative Claims Frequency

The Company determined that the disclosure of claim frequency analysis was impracticable. As a result, no claims frequency information has been disclosed. The Company's business is primarily comprised of reinsurance contracts written on a quota share or aggregate loss basis and the underlying claim count information is not provided for the contracts.

Mettlesome (Bermuda) Limited
Notes to Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

4. Reserve for losses and loss adjustment expenses (continued)

The following table presents supplementary information about average historical claims duration as of December 31, 2022 based on cumulative incurred and paid losses and allocated loss adjustment expenses presented above.

Incurred Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance						As of December, 2022 Total of Incurred-But-Not- Reported Liabilities plus Expected Development
For the Years Ended December 31, 2022						
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	
Accident year	2018	2019	2020	2021	2022	
2013	410,435	373,228	352,073	337,702	277,702	0
2014	1,493,655	1,822,752	1,764,448	1,164,904	1,108,576	0
2015	3,005,772	3,152,215	2,866,138	1,986,313	1,873,554	80,758
2016	3,306,035	2,705,616	2,197,776	1,907,930	1,807,393	796,833
2017	4,889,174	3,778,498	3,258,655	2,806,489	2,671,060	1,010,760
2018	1,500,156	2,036,764	1,599,640	1,508,928	1,360,152	95,611
2019		4,275,362	9,494,766	15,419,009	13,041,195	388,157
2020			237,741	189,665	161,118	38,804
2021				228,373	768,259	97,654
2022					130,628	15,710
Total	14,605,226	18,144,435	21,771,236	25,549,313	23,199,638	2,524,286

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance					
For the Years Ended December 31, 2022					
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Accident year	2018	2019	2020	2021	2022
2013	282,820	285,878	291,819	277,702	277,702
2014	1,108,981	1,110,380	1,108,726	1,108,702	1,108,576
2015	1,696,956	1,771,769	1,793,684	1,793,288	1,792,796
2016	845,451	992,373	989,091	1,008,937	1,007,940
2017	1,175,698	1,307,256	1,414,149	1,497,554	1,500,969
2018	314372.7606	571,894	927,318	1,162,115	1,150,114
2019		3,647,488	8,011,083	13,051,952	12,114,248
2020			109,201	123,334	122,313
2021				57,389	539,241
2022					37,914
Total	5,424,279	9,687,039	14,645,071	20,080,973	19,651,814

Reserve	9,180,947	8,457,396	7,126,165	5,468,341	3,547,824
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Average Annual Percentage Payout of Incurred Losses by Age					
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	2018	2019	2020	2021	2022
	37.14%	53.39%	67.27%	78.60%	84.71%

Mettlesome (Bermuda) Limited
Notes to Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

5. Investments

The following represents an analysis of net realized gains/(losses) on the sale of investments for the years ended:

December 31, 2022
Realized (losses) Net realized (losses)

Corporate bonds	\$	(2,999,413)	\$	(2,999,413)
Equities		(2,038,858)		(2,038,858)
	\$	(5,038,271)	\$	(5,038,271)

December 31, 2021
Realized gains Net realized gains

Corporate bonds	\$	279,180	\$	279,180
Equities		222,135		222,135
	\$	501,315	\$	501,315

Net investment income is derived from the following sources:

Net investment income

	2022	2021
Equities	\$ 95,966	\$ 43,579
Corporate bonds	1,997,993	2,301,075
US Government Bond	89,413	89,413
Cash and cash equivalents	891,713	22,060
Gross investment income	3,075,085	2,456,127
Investment expenses	(389,009)	(390,657)
Net investment income	<u>\$ 2,686,076</u>	<u>\$ 2,065,470</u>

Mettlesome (Bermuda) Limited
Notes to Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

6. Fair Value Measurement

U.S. GAAP establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

- Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets (and actively traded) that the Company has the ability to access. The Company does not adjust the quoted price for these investments.
- Level 2 – Pricing inputs and other than quoted prices in active markets (and not actively traded) which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans where the fair value is based on observable inputs.
- Level 3 – Pricing inputs are unobservable for the financial instruments and include situations where there is little, if any, market activity for the financial instrument. Fair value is determined through the use of models or other valuation methodologies. The inputs into determination of fair value require significant management judgment of estimation.

The Company receives assistance with its investment accounting function from a third party service provider. The service providers as well as Company's investment managers use several pricing services and brokers to assist with the determination of the fair value of the Company's investment portfolio. The Company does not typically adjust prices obtained from pricing services.

Mettlesome (Bermuda) Limited
Notes to Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

6. Fair Value Measurement (continued)

The following table presents the analysis of the Company's investments by level of input for determining fair value, as indicated in this note:

	As at December 31, 2022				
	Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs	Significant Unobservable inputs		
	(Level 1)	(Level 2)	(Level 3)	Total	
Corporate bonds	\$ -	\$ 46,128,641	\$ -	\$	46,128,641
Equities	-	-	-		-
US Government Bond	-	-	-		-
	<u>\$ -</u>	<u>\$ 46,128,641</u>	<u>\$ -</u>	<u>\$</u>	<u>46,128,641</u>

	As at December 31, 2021				
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable inputs		
	(Level 1)	(Level 2)	(Level 3)	Total	
Corporate bonds	\$ -	\$ 83,849,189	\$ -	\$	83,849,189
Equities	9,631,790	-	-		9,631,790
US Government Bond	-	-	-		-
	<u>\$ 9,631,790</u>	<u>\$ 83,849,189</u>	<u>\$ -</u>	<u>\$</u>	<u>93,480,979</u>

The Company's investments in equities are classified as Level 1 for which fair value is based on quoted market prices in active markets.

The Company's investments in corporate bonds consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair value of these securities are determined using a spread to a benchmark curve and significant inputs include trades, broker dealer quotes, benchmark yields and industry and market indicators. The principle inputs for corporate bonds and US Treasury are considered observable market inputs and, therefore, the fair value of these bonds are classified within Level 2. Restricted investments are held under the terms of the Reinsurance Agreements.

There were no transfers between levels in 2022.

Mettlesome (Bermuda) Limited
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For the years ended December 31, 2022 and 2021
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7. Commitments and Contingencies

(a) Concentration of business

The Company currently depends entirely on the Ceding Companies for its reinsurance business.

(b) Concentrations of credit risk

The assets that potentially subject to the Company concentrations of credit risk consist principally of:

Cash and cash equivalents

In order to mitigate concentration and operational risks related to cash and cash equivalents, the Company utilizes only well-established highly-rated financial institutions.

Investments

The Company's investment guidelines provide for the limitation of the credit risk through specific investment portfolio diversification requirements, investment concentration limitations as well as detailed liquidity provisions. At December 31, 2022, the portfolio was in compliance with the requirements of the investment guidelines.

(c) Legal proceedings

From time to time, as is common in the reinsurance industry, the Company may be subject to routine legal proceedings, including arbitrations, arising in the ordinary course of business. These legal proceedings generally relate to claims asserted by or against the Company in the ordinary course of reinsurance operations; estimated amounts payable under such proceedings are included in the reserve for losses and loss adjustment expenses in the Balance Sheet. At December 31, 2022, the Company is not party to any legal proceedings.

(d) Collateral

Included in restricted cash and cash equivalents, short terms investments and investments are assets valued at \$3,644,158, held in two trust accounts as collateral under the terms of the Reinsurance Agreements. A further \$132,000,000 is held as collateral in the restricted investments at fair value under the terms of a Supplemental Trust Agreement with the Ceding Companies.

8. Share capital

The authorized, issued and outstanding share capital of the Company at December 31, 2022 consists of 120,000 common shares with a par value of \$1.00 per share.

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9. Income Taxes

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on income or capital gains. The Company has received an assurance from the Minister of Finance in Bermuda that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits, income, gain or appreciation on any capital asset, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to the Company until March 31, 2035.

The Company does not consider itself to be engaged in trade or business in the United States and intends to conduct its operations in a manner that will not cause it to be treated as engaged in a trade or business in the United States and, therefore, does not expect to be required to pay U.S. federal income taxes other than the U.S. excise tax on reinsurance premiums.

The United States imposes an excise tax on insurance and reinsurance premiums paid to non-U.S. insurers or reinsurers with respect to risks located in the United States. The rate of tax, unless reduced by an applicable U.S. tax treaty, is one percent for all reinsurance premiums. The Company incurs federal excise taxes on certain of its reinsurance transactions. Such amounts are reflected as acquisition expenses in the Company's Statement of Income (Loss).

10. Related Party Transactions

During the 2022 year, the company engaged Fosun Asset Management to provide asset management services. Management Expense reported in 2022 was \$326,544 (2021: \$336,263).

11. Statutory Financial Information

Mettlesome (Bermuda) Limited is registered as a Class 3A insurer under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Insurance Acts"). Under the Insurance Acts, the Company is required to annually prepare and file a statutory financial return which includes statutory financial statements, a capital and solvency return and audited financial statements with the Bermuda Monetary Authority. The Insurance Acts also require the Company to maintain certain measures of solvency and liquidity during the year. Declarations of dividends from retained earnings and distributions from additional paid-in capital are subject to these solvency and liquidity requirements being met. As of December 31, 2022, these requirements were met.

The Company is required to maintain a minimum statutory capital and surplus which is calculated as equal to or greater than the Enhanced Capital Requirement ("ECR") or the Minimum Solvency Margin ("MSM"). ECR is calculated based on the risk-based capital measure called the Bermuda Solvency Capital Requirement ("BSCR") or an approved internal capital model. As of December 31, 2022, the Company was compliant with the MSM and ECR.

The statutory capital and surplus was \$61,480,984 and the MSM was \$1,000,000 for the Company at December 31, 2022.

12. Subsequent Events

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The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2022, through to April 26, 2023, the date the financial statements were available for issue.

During this period, there were no subsequent events requiring disclosure or recognition in the audited financial statements.