

May 31, 2023**Report of Independent Auditors****To the Board of Directors of Claddaugh Casualty Insurance Company Ltd.****Opinions**

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, 2022 and December 31, 2021, and the related condensed statements of income for the years then ended, including the related notes (collectively referred to as the “condensed financial statements”).

Unmodified opinion on regulatory basis of accounting

In our opinion, the accompanying condensed financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and December 31, 2021, and the results of its operations for the years then ended 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”).

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* section of our report, the accompanying condensed financial statements 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, 2022 and December 31, 2021, or the results of its operations for the years then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the *Auditors’ responsibilities for the audit of the condensed 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for adverse opinion on U.S. generally accepted accounting principles

As described in Note 4 to 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, to meet the requirements of the Bermuda Monetary Authority.

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 and pervasive.

Responsibilities of management 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 Legislation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the condensed financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed 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 the condensed financial statements are available to be issued.

Auditors' responsibilities for the audit of the condensed financial statements

Our objectives are to obtain reasonable assurance about whether the condensed financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 US 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 judgement made by a reasonable user based on the condensed financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the condensed 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 condensed financial statements.
- Obtain an understanding of internal controls 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 condensed financial statements.
- Conclude whether, in our judgement, 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.



**Chartered Professional Accountants
Hamilton, Bermuda**

CONDENSED CONSOLIDATED BALANCE SHEET

Claddaugh Casualty Insurance Company

As at **December 31, 2022**expressed in **United States Dollars**

LINE No.		2022	2021
1.	CASH AND CASH EQUIVALENTS	51,823,043	40,906,696
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	30,780,660	30,117,215
(h)	Total investments in and advances to affiliates	30,780,660	30,117,215
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	148,862	5,284
10.	ACCOUNTS AND PREMIUMS RECEIVABLE:		
(a)	In course of collection	851,809	3,017,859
(b)	Deferred - not yet due		
(c)	Receivables from retrocessional contracts		
(d)	Total accounts and premiums receivable	851,809	3,017,859
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

As at

December 31, 2022

expressed in

United States Dollars

LINE No.		2022	2021
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	-	368,443
(i)	Prepaid Expenses	38,210	36,390
(j)	Income Tax Receivable	828,331	902,115
(k)	Total sundry assets	866,541	1,306,948
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	84,470,915	75,354,002
	TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS		
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	8,542,244	3,204,473
(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	8,542,244	3,204,473
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	9,067,656	14,351,038
(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	9,067,656	14,351,038
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES		
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	17,609,900	17,555,511
	LONG-TERM BUSINESS INSURANCE RESERVES		
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)	Total Net Long-Term Business Insurance Reserves	-	-
	OTHER LIABILITIES		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	785,170	2,018,651
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE		

CONDENSED CONSOLIDATED BALANCE SHEET

Claddaugh Casualty Insurance Company

As at

December 31, 2022

expressed in

United States Dollars

LINE No.		2022	2021
30.	LOANS AND NOTES PAYABLE		
31.	(a) INCOME TAXES PAYABLE		
	(b) DEFERRED INCOME TAXES		
32.	AMOUNTS DUE TO AFFILIATES		
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	45,300	42,150
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

As at **December 31, 2022**expressed in **United States Dollars**

LINE No.		2022	2021
38.	TOTAL OTHER LIABILITIES	830,470	2,060,801
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	18,440,370	19,616,312
	CAPITAL AND SURPLUS		
40.	TOTAL CAPITAL AND SURPLUS	66,030,545	55,737,690
41.	TOTAL	84,470,915	75,354,002
		TRUE	TRUE

CONDENSED CONSOLIDATED STATEMENT OF INCOME

Claddaugh Casualty Insurance Company

As at December 31, 2022
expressed in United States Dollars

LINE No.		2022	2021
	GENERAL BUSINESS UNDERWRITING INCOME		
1.	GROSS PREMIUMS WRITTEN		
	(a) Direct gross premiums written		
	(b) Assumed gross premiums written	22,760,548	12,304,438
	(c) Total gross premiums written	22,760,548	12,304,438
2.	REINSURANCE PREMIUMS CEDED		
3.	NET PREMIUMS WRITTEN	22,760,548	12,304,438
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	(5,337,772)	805,086
5.	NET PREMIUMS EARNED	17,422,776	13,109,524
6.	OTHER INSURANCE INCOME		
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	17,422,776	13,109,524
	GENERAL BUSINESS UNDERWRITING EXPENSES		
8.	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED	39,714,828	16,725,793
9.	COMMISSIONS AND BROKERAGE		
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	39,714,828	16,725,793
11.	NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS	(22,292,052)	(3,616,269)
	LONG-TERM BUSINESS INCOME		
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	-	-
	LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES		
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.	NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS	-	-

CONDENSED CONSOLIDATED STATEMENT OF INCOME

Claddaugh Casualty Insurance Company

As at December 31, 2022

expressed in United States Dollars

LINE No.		2022	2021
29.	COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS	<u>(22,292,052)</u>	<u>(3,616,269)</u>
	UNDERNOTED ITEMS		
30.	COMBINED OPERATING EXPENSE		
	(a) General and administration	381,817	235,489
	(b) Personnel cost		
	(c) Other		
	(d) Total combined operating expenses	381,817	235,489
31.	COMBINED INVESTMENT INCOME - NET	638,894	65,553
32.	COMBINED OTHER INCOME (DEDUCTIONS)		
33.	COMBINED INCOME BEFORE TAXES	<u>(22,034,975)</u>	<u>(3,786,205)</u>
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current	(91,446)	(799,487)
	(b) Deferred	(368,443)	(116,423)
	(c) Total	<u>(459,889)</u>	<u>(915,910)</u>
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	(21,575,086)	(2,870,295)
36.	COMBINED REALIZED GAINS (LOSSES)		
37.	COMBINED INTEREST CHARGES		
38.	NET INCOME	<u>(21,575,086)</u>	<u>(2,870,295)</u>

CONDENSED CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS

Claddaugh Casualty Insurance Company
 As at December 31, 2022
 expressed in United States Dollars

LINE No.		2022	2021
1.	CAPITAL:		
(a)	Capital Stock		
	(i) Common Shares		
	authorized 5,720,000 shares of par	5,720,000	120,000
	value \$ 1,000 each issued and		
	fully paid 5,720,000 shares		
	(ii)		
	(A) Preferred shares:		
	authorized _____ shares of par		
	value _____ each issued and		
	fully paid _____ shares		
	aggregate liquidation value for —		
	2022 _____		
	2021 _____		
	(B) Preferred shares issued by a subsidiary:		
	authorized _____ shares of par		
	value _____ each issued and		
	fully paid _____ shares		
	aggregate liquidation value for —		
	2022 _____		
	2021 _____		
	(iii) Treasury Shares		
	repurchased _____ shares of par		
	value _____ each issued		
(b)	Contributed surplus	88,814,793	62,546,852
(c)	Any other fixed capital		
	(i) Hybrid capital instruments		
	(ii) Guarantees and others		
	(iii) Total any other fixed capital	-	-
(d)	Total Capital	94,534,793	62,666,852
2.	SURPLUS:		
(a)	Surplus - Beginning of Year	(6,929,162)	(4,058,867)
(b)	Add: Income for the year	(21,575,086)	(2,870,295)
(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	(28,504,248)	(6,929,162)
3.	MINORITY INTEREST		
4.	TOTAL CAPITAL AND SURPLUS	66,030,545	55,737,690

CLADDAUGH CASUALTY INSURANCE COMPANY LTD.
NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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, 2022, the Company entered into the following policies:

- PROPERTY CATASTROPHE EXCESS OF LOSS REINSURANCE CONTRACT (UBWP0001C) which provides coverage of \$30,000,000 x/s of \$34,000,000 for TypTap Insurance Company for a maximum exposure of \$60,000,000; Claddaugh’s participation is 8.25%.
- REINSTATEMENT PREMIUM PROTECTION REINSURANCE CONTRACT (UBWP0002C) which provides coverage for the Reinstatement Premium the reinsured may become liable to pay under the reinstatement provisions of the Property Catastrophe Excess of Loss Reinsurance Contracts issued to TypTap Insurance Company. The maximum exposure applicable to Original Contract number UBWP0001 is \$10,320,000 for the First Layer and \$9,900,000 for the Second Layer, and the maximum exposure applicable to Original Contract number UBWP0001C is \$8,910,000; Claddaugh’s participations are 42.75%, 74.18% and 8.25%, respectively.
- NON-FLORIDA PROPERTY CATASTROPHE EXCESS OF LOSS REINSURANCE CONTRACT (UBWP0003C) which provides coverage of \$24,000,000 x/s of \$10,000,000 for TypTap Insurance Company and Homeowners Choice Property & Casualty Insurance Company, Inc. for a maximum exposure of \$48,000,000; Claddaugh’s participation is 15.75%.
- NON-FLORIDA REINSTATEMENT PREMIUM PROTECTION REINSURANCE CONTRACT (UBWP0004C) which provides coverage for the Reinstatement Premium the reinsured may become liable to pay under the reinstatement provisions of the Property Catastrophe Excess of Loss Reinsurance Contracts issued to TypTap Insurance Company and Homeowners Choice Property & Casualty Insurance Company, Inc. The maximum exposure applicable to Original Contract number UBWP0003 is \$9,000,000 for the First Layer, \$7,517,500 for the Second Layer, \$18,750,000 for the Third Layer and \$13,000,000 for the Fourth Layer, and the maximum exposure applicable to Original Contract number UBWP0003C is \$8,100,000; Claddaugh’s participations are 22%, 4.68298969072165%, 5.628%, 1.41346153846154% and 15.75%, respectively.

- **PROPERTY CATASTROPHE MULTI-REGION EXCESS OF LOSS REINSURANCE CONTRACT (UBWP000FC)** which provides coverage of \$24,000,000 x/s of \$10,000,000 for TypTap Insurance Company for a maximum exposure of \$24,000,000 (Section A – Florida region), \$24,000,000 x/s of \$10,000,000 for TypTap Insurance Company and Homeowners Choice Property & Casualty Insurance Company, Inc. for a maximum exposure of \$24,000,000 (Section B – non-Florida region), and \$24,000,000 x/s of \$10,000,000 x/s of \$24,000,000 otherwise recoverable for TypTap Insurance Company and Homeowners Choice Property & Casualty Insurance Company, Inc. for a maximum exposure of \$24,000,000 (Section C – Florida and/or non-Florida regions); Claddaugh’s participation is 57.25%.

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.

(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, 2022, 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.

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

(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.

16. Subsequent to December 31, 2022, as the events involving the Russian Federation and Ukraine (the “Event”) continue to evolve, it has led to countries and jurisdictions such as the U.S, the U.K. and the EU imposing economic sanctions against individuals and entities with links to Russia and/or Ukraine. The Event has caused significant financial market volatility, economic uncertainty, and changes to the way business activities are undertaken. As of the date of issuance of these financial statements, the Company is not aware of any material impact on the financial statements resulting from the Event. The Company will continue to monitor this item.

17. Not applicable

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) During the year 2022, the parent made cash contribution to the company that increased the contributed surplus by \$31,867,940.

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 \$51,662,238 (2021: \$40,606,636) were held in the trust account as of December 31, 2022.

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 \$148,862.

10. The balance of accounts and premiums receivable is \$Nil (2021:\$77,790).

11-12. Not applicable.

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

13. Sundry assets are composed of deferred tax asset amount of \$Nil (2021: \$368,443). Prepaid expenses represent prepaid secretarial fee, management fee and out of pocket expenses in the amount of \$38,210 (2021: \$36,390). Income tax receivable amount of \$828,331 (2021: \$902,115).
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.

	2022	2021
Gross/Net loss and loss expense provisions at beginning of year	14,351,038	14,892,137
Net losses incurred and net loss expenses incurred related to:		
Current year	28,705,695	3,923,983
Prior years	<u>11,009,132</u>	<u>12,801,810</u>
Total net incurred losses & loss expenses	<u>39,714,827</u>	<u>16,725,793</u>
Net losses and loss expenses paid or payable related to:		
Current year	(28,705,695)	(1,752,419)
Prior years	<u>(16,292,514)</u>	<u>(15,514,474)</u>
Total losses and loss expenses paid or payable	<u>(44,998,209)</u>	<u>(17,266,892)</u>
Gross/Net loss and loss expense provisions at end of year	<u>9,067,656</u>	<u>14,351,038</u>

(b) Gross loss and loss expense provisions have increased by \$11,009,132 (2021 \$12,801,810) from last year. The increase is mainly due to the increase in losses and losses expenses for Sally;ETA; NE Storms and IAN losses.

(c) Not applicable.

20-27. Not applicable.

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

29. Not Applicable

30. Not applicable.

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

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).

The Components of income tax expense are as follows:

	2022	2021
Current income tax expense(benefit)	\$ (828,331)	(799,488)
Deferred Income tax expense(benefit)	368,442	(116,424)
	<u>\$ (459,889)</u>	<u>(915,911)</u>

The component of income tax payable are as follows:

	2022	2021
Current income tax payable/(receivable)	<u>\$ (828,331)</u>	<u>(902,115)</u>

32. Not applicable.

33. Accounts payable and accrued expenses in the amount of \$45,300 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.