SPORTING ACTIVITIES INSURANCE LIMITED

Financial Statements

(With Auditor's Report Thereon)

Years Ended November 30, 2023 and 2022

KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton
HM 08
Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 9132
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Sporting Activities Insurance Limited

Opinion

We have audited the financial statements of Sporting Activities Insurance Limited (the "Company"), which comprise the balance sheets as of November 30, 2023 and 2022, and the related statements of operations and retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of November 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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 U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from 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 from 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 scepticism 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

Management has omitted certain disclosures related to short-duration contracts that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
June 28, 2024

Balance Sheets

November 30, 2023 and 2022

(Expressed in United States Dollars)

	2023	2022
Assets		
Cash and Cash equivalent	$ 1,596,857	$ 2,333,121
Restricted cash (Note 2(e)	601,746	3,047,055
Investments (Note 3)	1,435,656	1,372,527
Collateral receivable	2,406,582	-
Accounts receivable	700,149	586,156
Insurance balances receivable	1,675,749	1,149,133
Reinsurance balance recoverable (Note 5)	695,069	350,000
Deferred acquisition cost	12,836	197,218
Deferred reinsurance premiums	45,443	221,605
Reinsurance premiums paid in advance	-	28,238
Funds withheld – Loss fund	25,000	25,000
Prepaid expenses	28,704	48,863
Total assets	$ 9,223,791	$ 9,358,916
Liabilities		
Outstanding losses and loss expenses (Note 5)	$ 2,023,420	$ 1,995,173
Unearned premiums	128,915	628,666
Accounts payable and accrued expenses	85,214	91,488
Reinsurance balances payable	1,442,799	978,257
Total liabilities	3,680,348	3,693,584
Shareholders' equity		
Ordinary shares (Note 7)	120,001	120,001
Share premium (Note 7)	11,500	11,500
Retained earnings	5,411,942	5,533,831
Total shareholders' equity	5,543,443	5,665,332
Total liabilities and shareholders' equity	$ 9,223,791	$ 9,358,916

See accompanying notes to financial statements

Signed on behalf of the Board

________________________ Director

________________________ Director

Statements of Operations and Retained Earnings

Years Ended November 30, 2023 and 2022

(Expressed in United States Dollars)

	2023	2022
Income		
Premiums written (Note 8)	$ 1,397,954	$ 1,860,351
Change in unearned premium reserve	499,750	207,927
Premiums earned	1,897,704	2,068,278
Reinsurance premiums ceded	492,779	655,774
Change in deferred reinsurance premiums	176,162	74,944
Premiums ceded	668,941	730,718
Net premiums earned	1,228,763	1,337,560
Net investment income/(loss)	170,970	(93,523)
Other underwriting income	113,993	184,356
Total income	$ 1,513,726	$ 1,428,393
Expenses		
Net losses and loss expenses incurred (Note 5)	968,657	(167,552)
Acquisition expenses	322,577	359,845
General and administrative expenses	344,381	274,483
Total expenses	$ 1,635,615	$ 466,776
Net (loss)/income	(121,889)	961,617
Retained earnings at beginning of year	5,533,831	4,572,214
Retained earnings at end of year	$ 5,411,942	$ 5,533,831

See accompanying notes to financial statements

SPORTING ACTIVITIES INSURANCE LIMITED

Statements of Cash Flows

Years Ended November 30, 2023 and 2022

(Expressed in United States Dollars)

	2023	2022
Cash flows from operating activities		
Net (loss)/income	$ (121,889)	$ 961,617
Changes in non-cash working capital		
Unrealized and realized (loss)/gain	(63,128)	143,684
Collateral receivable	(2,406,582)	-
Accounts receivable	(113,992)	(184,356)
Deferred acquisition cost	184,381	23,809
Insurance balances receivable	(526,616)	(423,554)
Reinsurance balance recoverable	(345,069)	(350,000)
Deferred reinsurance premiums	176,162	74,944
Reinsurance premiums paid in advance	28,238	-
Prepaid expenses	20,159	(33,476)
Outstanding losses and loss expenses	28,247	116,112
Unearned premiums	(499,751)	(207,926)
Accounts payable and accrued expenses	(6,274)	27,661
Reinsurance balances payable	464,542	226,815
Cash flows Used in/provided by operating activities	(3,181,572)	375,330
Net (decrease)/increase in cash and cash equivalents and restricted cash	(3,181,573)	375,330
Cash and cash equivalents and restricted cash at beginning of year	5,380,176	5,004,846
Cash and cash equivalents and restricted cash at end of year	$ 2,198,603	$ 5,380,176

See accompanying notes to financial statements

1. Nature of the business

Sporting Activities Insurance Limited (the "Company") was incorporated in Bermuda on June 12, 1986 as Sporting Arms Insurance Limited. On March 20, 1996 it changed its name to Sporting Activities Insurance Limited. The Company holds a Class 3A license under The Insurance Act, 1978 of Bermuda.

The Company provides facultative reinsurance of a domestic US insurer that writes general liability, products' liability and completed operations insurance on a claims made basis to manufacturers and importers in sporting activities. Coverage is provided up to $2,000,000 per claim and in aggregate. Excess of loss reinsurance is purchased limiting exposure in excess of $200,000 on each claim with an additional $350,000 annual aggregate "otherwise recoverable" retention and an aggregate up to $6,000,000.

2. Summary of significant accounting policies

Basis of presentation

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

Reporting currency

The financial information is reported in United States dollars ('U.S. dollars' or '$').

Use of estimates

The preparation of these financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and the 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. Actual results could differ from those estimates. The most significant estimates reflected in the financial statements are reserves for loss and loss expenses.

The following are the significant policies adopted by the Company.

(a) Premiums earned and deferred acquisition expenses

Premiums assumed are recorded on the accruals basis. Premiums are recognized as income on a pro-rata basis over the terms of the underlying contracts. Unearned premium reserves are established to cover the unexpired portion of premiums assumed. Ceded reinsurance premiums are similarly pro-rated over the terms of the contracts with the unexpired portion deferred in the balance sheet.

Premium adjustments to written and ceded premiums based on the insured's actual sales volume are recorded in operations in the period when determined.

Acquisition costs related to unearned premiums are deferred and amortized to income over the period in which the premiums are earned. The method followed in determining deferred acquisition expenses limits the amount of the deferral to its realizable value by giving consideration to losses and expenses and future investment income expected to be incurred as premiums are earned.

2. Summary of significant accounting policies (continued)

(b) Outstanding losses and loss adjustment expenses

Outstanding losses and loss adjustment expenses represent the amounts needed to provide for the estimated ultimate cost of settling claims relating to insured events that have occurred before the balance sheet date. These amounts are based upon management's estimate of losses reported by policy holders and estimates for developments on outstanding case reserves and reported claims not yet recorded based on the review by the company's claims committee using the past experience of the Company and industry data.

All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. It is reasonably possible that changes in future conditions in the near term could require a material change in the amount estimated. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current period.

Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

While management believes that the provision for outstanding losses and loss adjustment expenses established at the balance sheet date is reasonable to cover the ultimate cost of losses incurred to the balance sheet dates, net of anticipated investment income on funds prior to settlement, the provisions are necessarily estimates and may ultimately be settled for a significantly greater or lesser amount. It is at least reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences arising are recorded in the period in which they are determined.

(c) Investments

The Company carries its marketable securities at fair value. Investments in funds are carried at fair value based on either quoted market prices or the market value of the underlying investments within the fund as estimated by the fund manager. Investment income includes interest income recognized on the accruals basis and both net realized and unrealized gains on the mark to market adjustment. Realized and unrealized gains are determined on the specific identification method.

(d) Cash and cash equivalents

The Company considers all cash on hand, deposits with financial institutions that can be withdrawn without prior notice or penalty, money market funds and short-term deposits with an original maturity of ninety days or less as equivalent to cash.

(e) Fair value of financial instruments

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for these instruments approximate their fair values. Money market funds of $1,300,066 (2022 - $2,445,308) are presented within Cash and Cash Equivalents and carried at fair value using level 1 inputs in the fair value hierarchy.

Investments: The fair value option under the Financial Instruments Topic permits the choice to measure specified financial assets and liabilities at fair value on an instrument-by-instrument basis. The Company has elected the fair value option for its investments as these are managed on a fair value basis. Fair value is estimated using quoted market prices for the listed funds and net asset value as reported by the investment manager which approximated the market values of the underlying investments within the fund.

(Expressed in United States Dollars)

2. Summary of significant accounting policies (continued)

Other assets and liabilities: The fair value of the insurance balances receivable, accrued interest receivable, reinsurance premiums paid in advance, reinsurance balances payable, accounts payable and accrued expenses and commission payable approximates their carrying value due to their relative short-term nature.

(e) Fair value of financial instruments

The estimates of fair values presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realize in a current market exchange. However, any differences would not be expected to be material. Certain balances such as the prepaid expenses, reinsurance balance recoverable, outstanding losses and loss expenses and unearned premiums are excluded from fair value disclosure. Thus, the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

(h) Comparative figures

Certain 2022 amounts have been reclassified in the financial statements to conform with the 2023 presentation.

3. Investments

(a) The market values of the investments are as follows:

	2023	2022
Russell 200 Index Fund (Oppenheimer)	527,482	550,118
S&P 500 Index Fund (Oppenheimer)	679,123	606,628
Orbis Optimal Fund	229,050	215,781
Total	1,435,655	1,372,527
Interest income and Dividend income	79,445	49,901
Realized and Unrealized gain/(loss) on investments:	91,525	(143,424)
Net investment income/(loss)	170,970	(93,523)

The investments represent the Company’s participation in several independently managed investment funds consisting of portfolios of equity and debt securities. The investments are diversified to give minimal concentration by industry type and geographic region. There are no restrictions on the Company’s ability to make further investments in, or withdrawals from, the funds at any time.

3. Investments (continued)

(b) The following is a description of the valuation methodologies used for the investments measured at fair value:

Orbis optima: Valued using net asset value as reported by the investment manager, which approximates the market values of the underlying investments within the fund or realizable value as estimated by the investment manager.

The Company has adopted the provisions of ASU 2015-07, which remove the requirement to categorize investments in the fair value hierarchy if their fair value is at net asset value (NAV) using the practical expedient in the FASB's fair value measurement guidance.

The Russell 2000 and S&P Index Fund are exchange traded funds as they are listed on an active exchange. As at November 30, 2023 and 2022, the exchange traded securities are classified as level 1 in the fair value hierarchy.

4. Concentration of credit risk

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments of interest and/or principal when due.

The Company is exposed to credit risk principally through its cash and cash equivalents, investments and insurance balances receivable. Concentrations of credit risk arise from exposures to a single debtor or groups of debtors that have similar credit risk characteristics, such as debtors in the same geographic regions or in similar industries. The Company's maximum credit risk exposure is the carrying value of the assets net of any allowances for doubtful debts.

The Company held cash with two Bermudian financial institution with a credit rating of BBB+ (2022: BBB+) as per S&P and AAA (2022: AAA) as per the Index. Credit risk relating to held for trading investments is managed through monitoring of the issuer, industry and geographical diversification within the investment portfolio. The Company mitigates credit risk on its insurance balances receivable through detailed credit risk and underwriting policies and on-going monitoring of outstanding receivables.

The Company entered into a reinsurance agreement with Lexington Insurance Company and as part of this reinsurance agreement, the Company is required to provide a letter of credit. As at November 30, 2023, cash of $2,406,582 (2022 - $2,406,582) was pledged as collateral to secure the letter of credit.

(Expressed in United States Dollars)

5. Outstanding losses and loss adjustment expenses

The summary of changes in outstanding losses and loss expenses for 2023 and 2022 is as follows:

	2023	2022
Gross balance at December 1	$ 1,995,173	$ 1,879,061
Less reinsurance recoverable	(350,000)	–
Net balance at December 1	1,645,173	1,879,061
Incurred losses related to:		
Current year	583,081	400,000
Prior years	385,576	(567,552)
Net incurred losses	968,657	(167,552)
Paid losses related to:		
Current year	–	–
Prior years	1,285,479	66,336
Total paid losses	1,285,479	66,336
Net balance at November 30	1,328,351	1,645,173
Plus reinsurance recoverable	695,069	350,000
Gross balance at November 30	$ 2,023,420	$ 1,995,173

As a result of the change in estimates of insured events in prior years, the provision for losses and loss expenses had unfavorable development of by $385,576 (2022 – favorable $567,552).

Reserving methodology

The establishment of the provision for outstanding losses and loss adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims, product mix or concentration, claim severity and frequency patterns such as those caused by fires, or accidents, depending on the business.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's management and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Consequently, the establishment of the provision for outstanding losses and loss adjustment expenses relies on the judgment and opinion of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimate made.

(Expressed in United States Dollars)

5. Outstanding losses and loss adjustment expenses (continued)

There have been no significant changes in methodologies and assumptions used to establish outstanding loss and loss expenses during the year ended November 30, 2023.

Incurred and paid claims development

The following is information about incurred and paid claims development as of November 30, 2023 net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts.

The Required Supplementary Information (RSI) under US GAAP has not been disclosed as management of the Company believes the supplementary disclosures are not material to the financial statements and that the omission of the supplementary disclosures will not materially impede the readers understanding of the financial statements. The primary users of the financial statements are the shareholders and directors of the Company who have access to the full loss development activity and therefore disclosure in the financial statements is considered duplication.

Report Period	2023 Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance	2023 Cumulative Paid Losses and Paid Allocated Loss Adjustment Expenses, Net of Reinsurance	2023 Total of Incurred- But Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Claims Reported
2014	-	-	-	1
2015	-	-	-	1
2016	750,000	705,134	-	3
2017	647,276	647,276	-	1
2018	-	-	-	0
2019	900,000	773,496	26,504	4
2020	400,000	234,593	15,407	1
2021	400,000	165,285	159,715	2
2022	400,000	22,309	327,899	1
2023	379,167	-	379,167	1
Total	3,876,443	2,548,092	908,693	15

The cumulative claims count is determined by single claims for the policy year.

(Expressed in United States Dollars)

5. Outstanding losses and loss adjustment expenses (continued)

The following reconciles the above cumulative incurred and paid data to the liability for unpaid losses and loss adjustment expenses as of November 30, 2023:

	2023
Cumulative incurred losses and ALAE	$ 3,876,443
Less cumulative paid losses and ALAE	(2,548,092)
Outstanding losses and loss expenses, net	1,328,351
Reinsurance Recoverable	695,069
Total outstanding loss and loss expense	$ 2,023,420

6. Reinsurance

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of its reinsurers to minimize the exposure to significant losses from reinsurer insolvencies. The Company's reinsurers are rated A or better per AM Best.

7. Share capital

The Company's authorized share capital is 150,000 ordinary shares of $1.00 par value each and 1,050,000 preferred shares of $1.00 par value each.

The Company had issued 120,001 ordinary shares at $1.00 each, which are fully paid.

The Company's authorized preferred share capital is divided into Series A preference shares and Series B preference shares. The Company has designated 900,000 of the preferred shares as Series B preference shares. The remaining 150,000 preferred shares remain undesignated at the balance sheet date.

All preference shares are redeemable, non-convertible and non-voting and no preferences are currently issued.

Share premium represents the amounts paid for issued shares in excess of the par value.

8. Related party transactions

Premiums written of $550,000 (2022 - $500,000) were derived from shareholders of the Company through the reinsurance agreement with Lexington Insurance Company. There are no other related transactions.

9. Taxation

Under current Bermuda law, the Company is not obligated to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act 1966 which exempts the Company from any such taxes, at least until the year 2035.

(Expressed in United States Dollars)

10. Statutory requirements

The Company is required by its license to maintain capital and surplus greater than a minimum margin of solvency and an enhanced capital requirement. At November 30, 2023 the Company has met both of these requirements.

Actual statutory capital and surplus at November 30, 2023, as determined using statutory accounting principles, is as follows:

Total shareholders’ equity	$	5,543,444
Reconciling items to statutory capital and surplus:		
Prepaid expenses		(28,704)
Statutory capital and surplus	$	5,514,740

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, investments, accrued interest receivable and insurance balances receivable. Certain categories of assets do not qualify as relevant assets under the statute. The relevant liabilities are total general business insurance reserves and total other liabilities, less sundry liabilities.

At November 30, 2023 the Company was required to maintain relevant assets of at least $2,726,178 (2022 - $2,341,484). At that date relevant assets were $8,454,575 (2022 - $8,738,448) and the minimum liquidity ratio was therefore met.

The Company may declare dividends subject to it continuing to meet its solvency and capital requirements, which includes continuing to hold statutory capital and surplus equal to or exceeding its ECR. The Company is prohibited from declaring or paying in any fiscal year dividends of more than 25% of its prior year's statutory capital and surplus unless it files with the BMA a signed affidavit by at least two members of the Board of Directors attesting that a dividend would not cause the Company to fail to meet its relevant margins.

11. Subsequent events

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of November 30, 2023, through to June 29, 2024, the date the financial statements were available for issuance. The evaluation did not result in any subsequent events that necessitated disclosures and/or adjustments.

The Bermuda Corporate Income Tax Act (Bermuda CIT Act) was enacted on December 27, 2023, and will be effective in 2025 for Bermuda businesses that are part of multinational groups with annual revenue exceeding EUR 750 million. As of the date of issuing these financial statements, the Company is still determining if it falls within the scope of the Bermuda CIT Act.