

FINANCIAL STATEMENTS

Nomura Americas US Re Ltd.
For the year ended March 31, 2019

Nomura Americas US Re Ltd.

Financial Statements

For the year ended March 31, 2019

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Report of Independent Auditors

Shareholder and Board of Directors
Nomura Americas US Re Ltd.

We have audited the accompanying financial statements of Nomura Americas US Re Ltd. (the “Company”), which comprise the statements of financial condition as of March 31, 2019 and 2018, and the related statements of income, changes in shareholder’s equity and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes 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.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nomura Americas US Re Ltd. at March 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

August 15, 2019

Nomura Americas US Re Ltd.

Statements of Financial Condition

March 31, 2019

(Expressed in United States dollars)

	2019	2018
Assets		
Cash	\$ 13,085,903	14,415,148
Due from insureds	1,090,038	1,051,210
Prepaid risk and profit charges ceded	912,838	974,493
Income tax receivable	411,824	600,000
Prepaid expenses	65,180	42,360
	<hr/>	<hr/>
Total assets	\$ 15,565,783	17,083,211
Liabilities		
Intercompany payable	\$ 1,268,440	3,081,674
Ceded risk and profit charges payable	208,781	223,317
Deferred tax liability	191,696	170,708
Accounts payable & accrued expenses	214,690	60,530
Unearned premium reserve	-	58,750
	<hr/>	<hr/>
Total liabilities	1,883,607	3,594,979
Shareholder's equity		
Share capital	250,000	250,000
Contributed surplus	12,600,000	12,600,000
Retained earnings	832,176	638,232
	<hr/>	<hr/>
Total shareholder's equity	13,682,176	13,488,232
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Total liabilities and shareholder's equity	\$ 15,565,783	17,083,211

See accompanying Notes to Financial Statements.

Nomura Americas US Re Ltd.

Statements of Income

For the year ended March 31, 2019
(Expressed in United States dollars)

	<u>2019</u>	<u>2018</u>
Revenue		
Risk and profit charges earned	\$ 6,680,278	4,435,947
Risk and profit charges ceded	(930,844)	(402,133)
	<u>5,749,434</u>	<u>4,033,814</u>
Expenses		
Net transfer pricing fees	5,237,286	3,329,313
Legal fees	73,994	253,601
Government and license fees	71,987	55,636
General expenses	45,369	45,947
Management fees	44,167	37,186
Directors' fees	18,750	18,750
Corporate secretary fees	11,372	8,493
Consultancy fees	-	23,438
Bank charges	1,010	818
	<u>5,503,935</u>	<u>3,773,182</u>
Income before taxes	245,499	260,632
Income tax (benefit) / expense	51,555	(20,460)
Net income	<u>\$ 193,944</u>	<u>281,092</u>

See accompanying Notes to Financial Statements.

Nomura Americas US Re Ltd.

Statements of Changes in Shareholder's Equity

For the year ended March 31, 2019
(Expressed in United States dollars)

	<u>2019</u>	<u>2018</u>
Share capital		
Authorized share capital - 250,000 shares of par value \$1 each		
Issued shares, fully paid		
Common shares, beginning of year	250,000	250,000
Issued, fully paid during the year	-	-
Common shares, end of year	<u>250,000</u>	<u>250,000</u>
Issued share capital		
Common shares, beginning of year	\$ 250,000	250,000
Issued, fully paid during the year	-	-
Common shares, end of year	<u>\$ 250,000</u>	<u>250,000</u>
Contributed surplus		
Contributed surplus, beginning of year	\$ 12,600,000	5,350,000
Contributed surplus received during the year	-	7,250,000
Contributed surplus, end of year	<u>\$ 12,600,000</u>	<u>12,600,000</u>
Retained earnings		
Retained earnings, beginning of year	\$ 638,232	357,140
Net income for the year	193,944	281,092
Retained earnings, end of year	<u>\$ 832,176</u>	<u>638,232</u>

See accompanying Notes to Financial Statements.

Nomura Americas US Re Ltd.

Statements of Cash Flows

For the year ended March 31, 2019
(Expressed in United States dollars)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Net income for the year	\$ 193,944	281,092
Changes in operating assets & liabilities:		
Intercompany payable	(1,813,234)	543,938
Due from insureds	(38,828)	(344,314)
Prepaid risk and profit charges ceded	61,655	(974,493)
Accounts payable & accrued expenses	154,160	18,710
Income tax adjustments	209,164	(20,460)
Prepaid expenses	(22,820)	14,652
Ceded risk and profit charges payable	(14,536)	223,317
Unearned premium reserve	(58,750)	58,750
	<u>(1,329,245)</u>	<u>(198,808)</u>
Cash flows from financing activity:		
Contributed surplus received	-	7,250,000
	<u>-</u>	<u>7,250,000</u>
Cash provided by financing activities		
	<u>(1,329,245)</u>	<u>7,051,192</u>
Net (decrease) / increase in cash		
Cash, beginning of year	14,415,148	7,363,956
	<u>13,085,903</u>	<u>14,415,148</u>
Cash, end of year	\$	

Total cash received (net of payments) for tax refund(s) during the year is \$157,609 (2018-\$Nil).

See accompanying Notes to Financial Statements.

Nomura Americas US Re Ltd.

Notes to Financial Statements

March 31, 2019

(Expressed in United States dollars)

1. Organization

Nomura Americas US Re Ltd. (the “Company”) is incorporated in Bermuda and is licensed as a Class D Insurer under the Bermuda Insurance Act 1978, amendments thereto and related Regulations (“Act”). The Company is wholly owned by Nomura Holding America Inc. (“NHA” or the “Parent”). NHA is a United States corporation. NHA is wholly owned by Nomura Holdings, Inc. (“NHI” or “Nomura”), a Japanese corporation. In addition, Nomura Securities International, Inc. (“NSI”) and Nomura Global Financial Products Inc. (“NGFP”), both NHA subsidiaries, provide transaction structuring and execution support to the Company.

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

2. Summary of Significant Accounting Policies

Use of Estimates

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

Cash and cash equivalents

The Company defines cash equivalents to be highly liquid investments with original maturities of three months or less other than those held for trading purposes. At March 31, 2019 and 2018, there were no cash equivalents on the Statements of Financial Condition.

Nomura Americas US Re Ltd.

Notes to Financial Statements (continued)

March 31, 2019

(Expressed in United States dollars)

Insurance Contracts

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

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

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

Due from insureds consists of accrued revenues not yet received. *Unearned premium reserve* reflects the amount of premiums written but not yet earned and *Ceded risk and profit charges payable* is an expense arising pursuant to the Transactions explained in Note 3. The carrying values of these three balances approximate fair values.

Income taxes

Certain income and expense items are accounted for in different periods for income tax purposes as compared to financial reporting purposes. Provisions for deferred taxes are made in recognition of these temporary differences in accordance with the provisions of ASC 740, Income Taxes (“ASC 740”).

ASC 740 provides guidance and prescribes a recognition threshold and measurement attributes for financial statement recognition and measurement of uncertain tax positions (see Note 5).

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

Nomura Americas US Re Ltd.

Notes to Financial Statements (continued)

March 31, 2019

(Expressed in United States dollars)

Related party transactions

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

Functional and presentation currency

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

Statement of cash flows

The indirect method has been applied in the preparation of the statement of cash flows.

3. Reinsurance Transactions

On January 2, 2016, the Company entered into a transaction (the "Transaction") with a major US life insurer ("US Life Insurer"), pursuant to which the Company is to provide quota share reinsurance on certain group life insurance contracts issued by US Life Insurer. The Transaction does not have a defined duration. Reinsurance premiums in excess of claims are refunded to the US Life Insurer, net of an expense and risk charge (the "Experience Refund"). There is an Experience Refund sunset date whereby the US Life Insurer will forego all future Experience Refunds beyond three years from the date of inception of the Transaction, if the reinsurance is not recaptured by such date.

Effective November 1, 2017, the Company entered into a transaction with a major US insurer and reinsurer ("US Insurer and Reinsurer"), which involves the transfer of certain risks related to three reserve financing arrangements. The Company assumed \$575m of peak financing notional in respect of two reserve financing arrangements (one reserve finance transactions terminated on March 28, 2019 for re-negotiation and subsequently re-instated on April 1, 2019) and to facilitate the transaction, the Company then issued an internal insurance agreement with Nomura Americas Re Ltd ("NARL") assuming \$200m of peak financing notional associated with an existing reserve financing transaction on NARL.

Nomura Americas US Re Ltd.

Notes to Financial Statements (continued)

March 31, 2019

(Expressed in United States dollars)

On the effective date of the internal insurance policy, the Company paid \$1,000,000 to NARL as a one off risk and profit charges ceded fee. This fee is reported on the Statement of Financial Condition as *Prepaid risk and profit charges ceded* and will be amortized into expense on a straight-line basis until 2034, the maturity date of the reserve financing transaction.

The Company then reinsured 100% of such internal insurance policy to the US Insurer and Reinsurer and effectively transferring risk from NARL to the US Insurer and Reinsurer. The Company earns risk and profit charges equal to the risk and profit charges earned by NARL under its contingent commitment facility agreement and in exchange makes a payment in the amount of any loss that NARL incurs on the contingent commitment facility.

The counterparties' exposure to the credit of the Company is mitigated by specific limited guarantees from NHI.

Under ASC 944-15 Financial Services, Insurance, Long-Duration Contracts, the transactions are considered to be contracts that do not subject the reinsurer to the reasonable possibility of significant loss from the events insured, and they are also considered to be investment contracts and financial instruments. As noted above, revenue from these transactions is recognized on an accrual basis and earned over the respective contract periods in accordance with contract terms. Since there was no upfront deposit received by the Company, no deposit liability has been recognized.

Under statutory accounting principles, the Transactions are accounted for as reinsurance contracts. For tax purposes, the Transactions are treated as insurance contracts and follow statutory accounting principles.

Although the reinsurance transactions are recognized on an accrual basis, their fair value (net of the internal insurance policy) as of March 31, 2019 was \$Nil (2018 - \$ Nil). This fair value is calculated using unobservable inputs, and is considered a Level 3 measurement under ASC 820, *Fair Value Measurement*.

Nomura Americas US Re Ltd.

Notes to Financial Statements (continued)

March 31, 2019

(Expressed in United States dollars)

4. Transactions with Related Parties

One of the directors (the “Horseshoe Director”) of the Company is a majority shareholder of the ultimate parent company of Horseshoe Management Ltd. (“Horseshoe”). Horseshoe is the appointed insurance manager of the Company. The Company has recognized \$44,167 (2018 - \$37,186) of management fee expense for administrative services provided under the terms of the insurance management agreement with Horseshoe.

An affiliated company has paid a fee of \$18,750 (2018 - \$18,750) to one of its independent directors who is also an independent director of the Company (the “Independent Director”).

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

Effective November 1, 2017, the Company entered into an internal insurance agreement with NARL. (see Note 3).

Transfer Pricing Arrangement

The Company is subject to a transfer pricing arrangement (“TPA”) involving NSI and NGFP, where NSI and NGFP provide trade execution services (“Services”) for positions of the Company in accordance with US transfer pricing regulations and the Organization for Economic Cooperation and Development (“OECD”) transfer pricing guidelines. The Company pays amounts related to profits on these positions (“TPA Revenues”) to NSI and NGFP, after transaction-related expenses. The Company also receives reimbursements for certain costs, including cost of capital (for these purposes includes market and credit risk) under the TPA; the Company’s payments of TPA Revenues to NSI and NGFP are net of the cost of capital reimbursements received. If the TPA revenues are less than the sum of transaction expenses and cost of capital (excluding credit risk), then the Company does not receive reimbursement from NSI or NGFP.

Nomura Americas US Re Ltd.

Notes to Financial Statements (continued)

March 31, 2019

(Expressed in United States dollars)

Intercompany Payable on the Statements of Financial Condition is the net transfer pricing fees payable to NSI and NGFP and are comprised as follows:

	2019	2018
Net revenue payable by the Company	\$ 5,749,434	4,033,814
Capital fee payable to the Company	(229,500)	(234,000)
Expense reimbursement payable to the Company	(282,648)	(470,501)
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Net transfer pricing fee	\$ <u>5,237,286</u>	<u>3,329,313</u>

5. Taxation

Income tax expense / (benefit) is comprised of the following:

	2019	2018
Current:		
Federal	\$ 30,567	(191,168)
Total current income tax expense	\$ 30,567	(191,168)
Deferred		
Federal	\$ 20,988	170,708
Total deferred income tax expense	\$ 20,988	170,708
	<hr/>	<hr/>
Total income tax expense	\$ <u>51,555</u>	<u>(20,460)</u>

The effective tax rate used is the statutory federal rate of 21%.

Nomura Americas US Re Ltd.

Notes to Financial Statements (continued)

March 31, 2019

(Expressed in United States dollars)

The components of the Company's net deferred tax liability (“DTL”) at March 31, 2019 are as follows:

		<u>2019</u>	<u>2018</u>
Deferred tax :			
Deferred tax asset (“DTA”)	\$	-	33,936
Deferred tax liability		(191,696)	(204,644)
Net DTL	\$	<u>(191,696)</u>	<u>(170,708)</u>

ASC 740 prescribes an asset and liability approach to accounting for taxes that requires the recognition of DTAs and DTLs for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. In estimating future tax consequences, ASC 740 generally considers all expected future events other than future enactment of changes in the tax law or rates. The DTL relates to the profit ceded fees.

As of March 31, 2019, no material modification is necessary to prior year’s estimated deferred tax benefit of \$88,289, as a result of the re-measurement due to the enactment of the Tax Cuts and Jobs Act (“the Act”) of 2017. The accounting over the enactment date provisions of the Act is considered to be final.

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

The Company has elected to be treated as U.S. taxable entity, under section 953(d) of the United States Internal Revenue Code. Any U.S. tax liability arising out of operations of the Company has been included in these financial statements.

As of March 31, 2019, the Company determined that it has no uncertain tax positions, interest or penalties as defined within ASC 740, and accordingly, management has concluded that no additional ASC 740 disclosures are required.

As of March 31, 2019, the Company is subject to tax examination for the tax year ending December 31, 2016 and 2017. The Company is not currently under tax audit. The Company does not have unrecognized tax benefits. The Company does not believe that it is reasonably possible that the total unrecognized benefits will significantly change within the next 12 months.

Nomura Americas US Re Ltd.

Notes to Financial Statements (continued)

March 31, 2019

(Expressed in United States dollars)

6. Share capital and contributed surplus

The Company was incorporated on December 9, 2015, with authorized share capital \$250,000 divided into 250,000 shares with a par value of \$1.00 each. On incorporation, the Company issued 250,000 fully paid shares of par value \$1.

During the year ended March 31, 2019, the Company received additional contributed surplus of \$Nil (2018 - \$7,250,000) from its shareholder.

At March 31, 2019, the Company had issued share capital of \$250,000 (2018 - \$250,000) and contributed surplus of \$12,600,000 (2018 - \$12,600,000).

7. Capital and Regulation

The Company is registered as a Class D Insurer under the Act. The Company has a direction from the Bermuda Monetary Authority (the “Authority”) that requires it to maintain a minimum solvency margin (“MSM”) of \$5,000,000 (2018 - \$5,000,000). As at March 31, 2019, the statutory capital and surplus of the Company was \$13,616,996 (2018 - \$13,445,872) and, accordingly, the Company has met the MSM requirement.

8. Subsequent Events

The Company has evaluated subsequent events through August 15, 2019, the date as of which these financial statements are available to be issued.