

**Heritage Reinsurance Company, Ltd.**

**Condensed General Purpose Financial Statements  
Together with the Independent Auditors' Report**

**December 31, 2020 and 2019**

## REPORT OF INDEPENDENT AUDITORS

### To the Board of Directors of Heritage Reinsurance Company, Ltd.

We have audited the accompanying condensed financial statements of Heritage Reinsurance Company, Ltd., which comprise the condensed balance sheets and condensed statements of capital and surplus as of December 31, 2020 and 2019, and the related condensed statements of income for the years then ended, and the related notes to the condensed financial statements.

### Management's Responsibility 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 Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial statements (the 'Legislation'). Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of condensed financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the condensed financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the condensed 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 condensed financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 3 of 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.

The effects on the condensed financial statements of the variances between the regulatory basis of accounting described in Note 3 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

## REPORT OF INDEPENDENT AUDITORS (CONT'D)

### **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" paragraph, the condensed financial statements referred to above 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, 2020 and 2019, or the results of its operations or its cash flows for the years then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the condensed financial statements referred to above present fairly, in all material respects, the financial position of Heritage Reinsurance Company, Ltd. as of December 31, 2020 and 2019, and the results of its operations for the years then ended in accordance with the financial reporting provisions of the Legislation described in Note 3.

*Deloitte Ltd.*

April 21, 2021

**CONDENSED BALANCE SHEET**

 Heritage Reinsurance Company, Ltd.  
 As at **December 31, 2020**  
 expressed in ('000s) **United States Dollars**

LINE No.		2020	2019
1.	CASH AND CASH EQUIVALENTS	4,479	1,357
2.	QUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity	-	-
	ii. Other	72,121	55,159
(b)	Total Bonds and Debentures	72,121	55,159
(c)	Equities		
	i. Common stocks		
	ii. Preferred stocks		
	iii. Mutual funds		
(d)	Total equities	-	-
(e)	Other quoted investments		
(f)	Total quoted investments	72,121	55,159
9.	INVESTMENT INCOME DUE AND ACCRUED	161	168
12.	FUNDS HELD BY CEDING REINSURERS	104	104
13.	SUNDRY ASSETS:		
(h)	Deferred income tax asset		
(i)	Income tax receivable		18,486
(j)			
(k)	Total sundry assets	-	18,486
15.	TOTAL	76,865	75,274
<b>TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS</b>			
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	8,274	10,835
(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	8,274	10,835
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES		
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	8,274	10,835
<b>OTHER LIABILITIES</b>			
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	-	346
31.	(a) INCOME TAXES PAYABLE	422	
	(b) DEFERRED INCOME TAXES	519	314
32.	AMOUNTS DUE TO AFFILIATES	27	21
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	16	52
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:		
35.	DIVIDENDS PAYABLE		
38.	TOTAL OTHER LIABILITIES	984	733
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	9,258	11,568
<b>CAPITAL AND SURPLUS</b>			
40.	TOTAL CAPITAL AND SURPLUS	67,607	63,706
41.	TOTAL	76,865	75,274

**CONDENSED STATEMENT OF INCOME**

Heritage Reinsurance Company, Ltd.  
 As at December 31, 2020  
 expressed in ['000s] United States Dollars

LINE No.		2020	2019
	<b>GENERAL BUSINESS UNDERWRITING INCOME</b>		
1.	GROSS PREMIUMS WRITTEN		
	(a) Direct gross premiums written		
	(b) Assumed gross premiums written		
	(c) Total gross premiums written	-	-
2.	REINSURANCE PREMIUMS CEDED		
3.	NET PREMIUMS WRITTEN	-	-
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS		
5.	NET PREMIUMS EARNED	-	-
6.	OTHER INSURANCE INCOME		
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	-	-
	<b>GENERAL BUSINESS UNDERWRITING EXPENSES</b>		
8.	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED	(2,250)	500
9.	COMMISSIONS AND BROKERAGE		
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	(2,250)	500
11.	<b>NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS</b>	2,250	(500)
29.	<b>COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS</b>	2,250	(500)
	<b>UNDERNOTED ITEMS</b>		
30.	COMBINED OPERATING EXPENSE		
	(a) General and administration	339	297
	(b) Personnel cost		
	(c) Other		
	(d) Total combined operating expenses	339	297
31.	COMBINED INVESTMENT INCOME - NET	919	786
32.	COMBINED OTHER INCOME (DEDUCTIONS)	358	
33.	COMBINED INCOME BEFORE TAXES	3,188	(11)
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current	741	14
	(b) Deferred	(53)	87
	(c) Total	688	101
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	2,500	(112)
36.	COMBINED REALIZED GAINS (LOSSES)	90	396
37.	COMBINED INTEREST CHARGES		
38.	NET INCOME	2,590	284

**CONDENSED STATEMENT OF CAPITAL AND SURPLUS**

Heritage Reinsurance Company, Ltd.

As at **December 31, 2020**expressed in ['000s] **United States Dollars**

<b>LINE No.</b>		<b>2020</b>	<b>2019</b>
<b>1.</b>	<b>CAPITAL:</b>		
(a)	Capital Stock		
	(i) Common Shares		
	authorized	550,370,000	550,370
	value	\$ 1,000	
	fully paid	550,370,000	
		shares of par	each issued and
		shares	shares
(b)	Contributed surplus	(281,765)	(281,765)
(d)	Total Capital	268,605	268,605
<b>2.</b>	<b>SURPLUS:</b>		
(a)	Surplus - Beginning of Year	(204,899)	(206,040)
(b)	Add: Income for the year	2,590	284
(c)	Less: Dividends paid and payable		
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments	1,311	652
(e)	Add (Deduct) change in any other surplus		205
(f)	Surplus - End of Year	(200,998)	(204,899)
3.	Accumulated Other Comprehensive Income net of Tax	-	-
4.	<b>TOTAL CAPITAL AND SURPLUS</b>	67,607	63,706

**HERITAGE REINSURANCE COMPANY, LTD.**  
**NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS**  
December 31, 2020 and 2019  
(Expressed in Thousand U.S. Dollars)

**1. Organization and Structure of Business**

Heritage Reinsurance Company, Ltd. (“the Company”) was incorporated in Bermuda on November 14, 1997, as a subsidiary of Fencourt Reinsurance Company, Ltd (“Fencourt”), a Bermuda domiciled insurer. On December 31, 1997, the entire share capital of the Company was transferred to Heritage Holdings, Inc. (“Heritage Holdings”), which is ultimately a wholly owned subsidiary of The Hartford Financial Services Group, Inc. (“Hartford”), a U.S. corporation. On September 18, 2000, 550,000,000 shares were issued to Hartford Fire Insurance Company (“Hartford Fire”). On October 29, 2004, Hartford Fire sold the 550,000,000 shares to Heritage Holdings. On December 22, 2017, the Company merged with Fencourt into a single entity (“Merger”). As the surviving entity, the Company retained its existing capital structure, management and constitution. The Company is wholly owned by Heritage Holdings.

**2. General Nature of Risks Underwritten**

The Company has no active reinsurance policies as the last policy, which was a reinsurance policy in Fencourt, ended in 1992. Most of the remaining carried reserves relate specifically to captive insurance coverage for an affiliate’s workers compensation program assumed by the Company from an individual ceding entity exposure.

**3-5. Accounting policies**

*Basis of preparation*

The accompanying condensed general purpose financial statements of the Company are presented in accordance with the financial reporting provisions of the Bermuda Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 (“the legislation”), under the principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Premiums*

Premiums written under retroactive contracts are earned upon inception of the policy.

Premiums for all other business are earned over the terms of the policies and are subject to retrospective adjustment based on actual loss experience.

**HERITAGE REINSURANCE COMPANY, LTD.**  
**NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS**  
December 31, 2020 and 2019  
(Expressed in Thousand U.S. Dollars)

**3.5 Accounting Policies (Cont'd)**

*Loss and loss expenses provisions*

The reserve for losses and loss related expenses includes estimates for losses incurred but not reported as well as losses pending settlement.

Estimating the ultimate cost of future losses and loss adjustment expenses is an uncertain and complex process. This estimation process is based on the assumption that past developments are an appropriate predictor of future events and involves a variety of actuarial and scientific techniques that analyze experience, trends and other relevant factors. The uncertainties involved with the reserving process have become increasingly unpredictable due to a number of complex factors including social and economic trends and changes in the concept of legal liability and damage awards. Accordingly, final loss settlements may vary from the present estimates, particularly when those payments may not occur until well into the future.

Significant uncertainty limits the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and expenses related to environmental and particularly asbestos claims. The degree of variability of reserve estimates for these exposures is significantly greater than for other more traditional exposures.

The Company continually reviews its loss and loss expenses provisions as additional experience and other relevant data becomes available and adjusts provision levels accordingly. Adjustments to previously established provisions, if any, will be reflected in the operating results of the period in which the adjustment is made.

*Commissions*

Underwriting commissions are expensed as incurred. Certain policies have provisions for a profit commission based upon the underwriting and investment experience of the underlying policies.

*Quoted investments*

Quoted Investments, which consist of fixed income securities, are carried at fair value. The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment transactions are recorded on a trade date basis. Realized gains or losses on sale of investments are determined using the first in first out method. Unrealized gains or losses on quoted investments as at December 31, 2020 are included as a component of Statutory Surplus.

*Cash and time deposits*

Cash and time deposits include amounts held in banks, time deposits with maturities of less than three months and money market funds. The carrying value approximates fair value because of the short maturity of the balances.



**HERITAGE REINSURANCE COMPANY, LTD.**  
**NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS**  
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(Expressed in Thousand U.S. Dollars)

**3.5 Accounting Policies (Cont'd)**

*Investment income*

Investment income is recognized by the accrual method of accounting.

*Other - asbestos and environmental related claims*

The Company has assumed liability for asbestos related illnesses and environmental cleanup, from affiliated companies. With regard to both environmental and particularly asbestos claims, significant uncertainty limits the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses. Traditional actuarial reserving techniques cannot reasonably estimate the ultimate cost of these claims, particularly during periods where theories of law are in flux. The degree of variability of reserve estimates for these exposures is significantly greater than for other more traditional exposures. In particular, the Company believes there is a high degree of uncertainty inherent in the estimation of asbestos loss reserves.

The Company believes that its current asbestos and environmental reserves are reasonable and appropriate. However, analyses of future developments could cause the affiliated companies to change their estimates and ranges of asbestos and environmental reserves, and the effect of these changes could be material to the Company's operating results, financial condition and liquidity.

**6.-12. Not applicable.**

**13. Investments**

In accordance with the ASC Topic 820 ("Topic 820"), the Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarchy that prioritizes the inputs in the valuation techniques used to measure fair value into three broad Levels (Level 1, 2, or 3) as follows:

- Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. Level 1 securities include highly liquid U.S. Treasuries and money market funds;
- Level 2 - Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities. Most fixed maturities are model priced by vendors using observable inputs and are classified within Level 2.
- Level 3 - Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Level 3 securities include less liquid securities. Because Level 3 fair values, by their nature, contain one or more significant unobservable inputs as there is little or no observable market for these assets and liabilities, considerable judgment is used to determine the Level 3 fair values that represent the Company's best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

**HERITAGE REINSURANCE COMPANY, LTD.**  
**NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS**  
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**13. Investments (Cont'd)**

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Company's financial instruments fall as of December 31, 2020 and 2019:

<b>2020</b>	Level 1	Level 2	Level 3	Total
<b>ASSETS</b>				
Short Term Investment Pool	\$ 2,886	\$ 659	\$ -	\$ 3,545
Other Portfolio Investments	-	68,576	-	68,576
<b>Total</b>	<u>\$ 2,886</u>	<u>\$ 69,235</u>	<u>\$ -</u>	<u>\$ 72,121</u>

The investments are in a short-term investment pool and other portfolio investments managed by an affiliated company. The short-term investment pool consists mainly of commercial paper and government treasury holdings with short maturity tenors. The other portfolio investments consist of government bonds. All investments are carried at market value. The pool comprises of investment grade assets with a maximum maturity of three years. Interest income on short-term investment pool assets in 2020 totaled \$919 (2019: \$56).

The average life of the invested assets was 1,216 days in 2020 and 1,200 days in 2019.

**14. Maturity of Investments**

The following table summarizes the maturity profile of the Company's financial instruments as of December 31, 2020:

<b>2020</b>	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
<b>ASSETS</b>					
Short Term Investment Pool	\$ 3,545	\$ -	\$ -	\$ -	\$ 3,545
Other Portfolio Investments	10,213	44,206	14,157	-	68,576
	<u>\$ 13,758</u>	<u>\$ 44,206</u>	<u>\$ 14,157</u>	<u>\$ -</u>	<u>\$ 72,121</u>

**HERITAGE REINSURANCE COMPANY, LTD.**  
**NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS**  
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**15. Related Party**

*Hartford Investment Management Company Inc.*

During the year, the Company's portfolio of investments was managed by Hartford Investment Management Company ("HIMCO"), an affiliated company, under a management agreement dated March 31, 1997. Under the terms of this agreement, the Company paid management fees to HIMCO totaling \$93 and \$45 in 2020 and 2019, respectively.

**16. Subsequent Events**

There were no events up to the date of this report.

**17. Additional Information Requiring Disclosure**

None noted.

**HERITAGE REINSURANCE COMPANY, LTD.**  
**NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS**  
December 31, 2020 and 2019  
(Expressed in Thousand U.S. Dollars)

Notes to the Consolidated Statement of Capital and Surplus

**1. (a) Capital stock**

The Company's authorized share capital consists of 550,370,000 shares of \$1 (one dollar) each par value. 550,370,000 shares have been issued and fully paid.

**(b) Contributed Surplus**

The Company's contributed surplus is negative \$200,998 (2019: negative \$281,765).

**2(c) Not applicable.**

Notes to the Consolidated Balance Sheet

**1-8. Not applicable**

**9. Investment income due and accrued**

Accrued investment income is valued as the interest or dividends payable to the Company for corporate and government bonds that are due within one year.

**10-12. Not applicable.**

**13. Sundry assets**

Refer to note 31 "Income Tax".

**14. Letters of credit**

In the normal course of reinsurance operations, the Company has issued unsecured letters of credit in the amount of \$8,700 in favor of the ceding insurance companies.

**15-16. Not applicable.**

**HERITAGE REINSURANCE COMPANY, LTD.**  
**NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS**  
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(Expressed in Thousand U.S. Dollars)

**17. Loss and loss expenses provisions**

**(a)**

	2020	2019
Gross loss and loss expense provision at beginning of year	\$ 10,835	\$ 10,638
Less: Reinsurance recoverable at beginning of year	-	-
	10,835	10,638
Net loss and loss expense provisions at beginning of year	10,835	10,638
Add: Net losses and loss expenses reserve movement related to:		
Current year	-	-
Prior years	(2,250)	500
	(2,250)	500
Total net incurred losses and loss expenses	(2,250)	500
Less: Net losses and loss expenses paid or payable related to:		
Current year	-	-
Prior years	311	303
	311	303
Total losses and loss expenses paid or payable	311	303
Foreign exchange and other		
Net loss and loss expense provisions at end of year	8,274	10,835
add: Reinsurance recoverable at end of year	-	-
	8,274	10,835
Gross loss and loss expense provisions at end of year	\$ 8,274	\$ 10,835

**(b)** The net losses incurred and net losses expenses incurred related to prior years were decreased mainly due to a reduction in domestic casualty asbestos reserves. No additional premiums or return of premiums have been accrued as a result of the prior year effects.

**(c)(ii)** All policyholder obligations are unsecured. Refer to note 14.

**20-30. Not applicable.**

**31. Income Tax**

*Bermuda Tax*

At the present time, no income, profit or capital gain taxes are levied in Bermuda and accordingly, no provision for such tax has been recorded by the Company. In the event that such taxes are levied, the Company has received an undertaking by the Bermuda Government exempting it from all such taxes until March 31, 2035.

**HERITAGE REINSURANCE COMPANY, LTD.**  
**NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS**  
December 31, 2020 and 2019  
(Expressed in Thousand U.S. Dollars)

**31. Income Tax (Cont'd)**

*U.S. Income Tax*

The Company has filed with the United States Internal Revenue Service an election pursuant to Section 953 (d) to be taxed as a domestic corporation for purposes of the United States Internal Revenue Code. The election is effective for the year ended December 31, 1997 and all subsequent years and may not be revoked without the consent of the Secretary of the Treasury.

An electing corporation, as a domestic corporation for United States tax purposes, is not subject to the provisions of Subpart F of the Internal Revenue Code. In addition, premiums paid or ceded to the Company will not be subject to the United States federal excise tax. The Company has also elected to be included in Hartford's consolidated United States federal income tax return.

*Deferred Income Tax*

Deferred tax assets and liabilities are determined based on the difference between the tax basis of an asset or liability and its reported amount in the financial statements using enacted tax rates. Future tax benefits attributable to these differences are recognized to the extent that realization of such benefits is more likely than not. The primary differences between accounting and taxable income arise from a difference in the method of discounting reserves for loss and loss related expenses.

**32. Amounts due to affiliates**

\$27 is payable to HIMCO and due quarterly in arrears.

**33. Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities of \$16 (2019: \$52) represent amounts incurred in the normal course of business not yet settled.

**34-35 Not applicable**

**36. Sundry liabilities**

Refer to note 31 "Deferred Income Tax".

**37. Not applicable.**

**HERITAGE REINSURANCE COMPANY, LTD.**  
**NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS**  
December 31, 2020 and 2019  
(Expressed in Thousand U.S. Dollars)

Notes to the Consolidated Statement of Income

**6. Not Applicable.**

**15. Not Applicable.**

**32. Not Applicable.**

**36. Combined realized gains / (losses)**

Combined realized gains and losses relate to realized losses from the sale of investments during 2020 of \$90 (2019: \$396).