

# **Nixer Comp Reinsurance, Ltd.**

(Incorporated in Bermuda)

Financial Statements

**December 31, 2020**

(expressed in U.S. dollars)



**April 28, 2021**

**Report of Independent Auditors**

**To the Board of Directors and Shareholder of Nixer Comp Reinsurance, Ltd.**

We have audited the accompanying financial statements of Nixer Comp Reinsurance, Ltd., which comprise the balance sheet as of December 31, 2020 and the related statement of loss and comprehensive loss, of changes in shareholder's equity and of cash flows for the period from April 1, 2020 to December 31, 2020.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

**Auditors' responsibility**

Our responsibility is to express an opinion on the 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 financial statements are free from 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 our 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, we consider 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 Nixer Comp Reinsurance, Ltd. as of December 31, 2020, and the results of its operations and its cash flows for the period from April 1, 2020 to December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Accounting principles generally accepted in the United States of America require that the required supplemental information under Accounting Standards Update 2015-09, *Disclosure about Short-Duration Contracts* labelled as Unaudited within note 4 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*PrunewaterhouseCoopers Ltd.*

**Chartered Professional Accountants**

# Nixer Comp Reinsurance, Ltd.

Balance Sheet

As at December 31, 2020

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(expressed in U.S. dollars)

	<b>2020</b>
	<b>\$</b>
<b>Assets</b>	
Cash and cash equivalents	3,371,531
Restricted cash and cash equivalents (note 10)	800,000
Reinsurance balances receivable (note 6)	464,784
Deferred reinsurance premium	215,000
Deferred acquisition costs	16,125
Deferred tax asset (note 3)	226,947
Loss reserves recoverable (note 4)	148,653
Loss escrow funds (note 10)	14,219
Prepaid expenses	6,377
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<b>Total assets</b>	<b>5,263,636</b>
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<b>Liabilities</b>	
Provision for unpaid claims and claims expenses (note 4)	872,565
Reinsurance balances payable (note 7)	245,073
Acquisition costs payable (note 8)	203,965
Funds withheld	777,069
Accounts payable and accrued expenses	75,340
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<b>Total liabilities</b>	<b>2,174,013</b>
	<hr/>
<b>Shareholder's equity</b>	
Share capital (note 14)	120,000
Contributed surplus (note 14)	3,823,375
Retained loss	(853,752)
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<b>Total shareholder's equity</b>	<b>3,089,623</b>
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<b>Total liabilities and shareholder's equity</b>	<b>5,263,636</b>
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Approved by the Board of Directors

  
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Director

  
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Director

The accompanying notes are an integral part of these financial statements.

**Nixer Comp Reinsurance, Ltd.**  
Statement of Loss and Comprehensive Loss  
For the period ended December 31, 2020

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(expressed in U.S. dollars)

	<b>2020</b>
	<b>\$</b>
<b>Underwriting income</b>	
Gross premiums written	1,647,048
Reinsurance premiums ceded	<u>(991,764)</u>
Net premiums written	655,284
Net change in unearned premiums and deferred reinsurance premiums	<u>215,000</u>
Net premiums earned	<u>870,284</u>
<b>Total underwriting income</b>	<u>870,284</u>
<b>Underwriting expenses</b>	
Net claims and claims expenses (note 4)	(757,263)
Acquisition costs	<u>(851,152)</u>
<b>Total underwriting expenses</b>	<u>(1,608,415)</u>
<b>Net underwriting loss</b>	(738,131)
General and administrative expenses	(342,988)
Net investment income	<u>419</u>
<b>Loss before income taxes</b>	(1,080,700)
Federal income taxes benefit (note 3)	<u>226,947</u>
<b>Net loss and comprehensive loss</b>	<u>(853,752)</u>

The accompanying notes are an integral part of these financial statements.

# Nixer Comp Reinsurance, Ltd.

Statement of Changes in Shareholder's Equity  
For the period ended December 31, 2020

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(expressed in U.S. dollars)

	Contributed surplus \$	Share Capital \$	Retained loss \$	Total \$
<b>Balance – April 1, 2020</b>	-	-	-	-
Share capital issued	-	120,000	-	120,000
Contributed surplus issued	3,823,375	-	-	3,823,375
Net loss for the period	-	-	(853,753)	(853,752)
<b>Balance – December 31, 2020</b>	<b>3,823,375</b>	<b>120,000</b>	<b>(853,753)</b>	<b>3,089,623</b>

The accompanying notes are an integral part of these financial statements.

# Nixer Comp Reinsurance, Ltd.

## Statement of Cash Flows

For the period ended December 31, 2020

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(expressed in U.S. dollars)

	<b>2020</b>
	<b>\$</b>
<b>Cash flows from operating activities</b>	
Net loss for the period	(853,752)
Adjustments to reconcile net loss to net cash provided by operating activities:	
(Increase) in Reinsurance balances receivable	(464,783)
(Increase) in Deferred acquisition cost	(16,125)
(Increase) in Prepaid expenses	(6,377)
(Increase) in Deferred reinsurance premium	(215,000)
(Increase) in Loss reserve recoverable	(148,653)
(Increase) in Deferred tax asset	(226,947)
(Increase) in Loss escrow funds	(14,219)
Increase in Acquisition costs payable	203,965
Increase in Accounts payable and accrued expenses	75,340
Increase in Provision for unpaid claims and claims expenses	872,565
Increase in Funds withheld	777,069
Increase in Reinsurance balances payable	245,073
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Cash provided by operating activities	228,156
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<b>Cash flows provided by financing activities</b>	
Capital contributions	3,943,375
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Cash provided by financing activities	3,943,375
	<hr/>
<b>Net increase in cash and cash equivalents</b>	4,171,531
<b>Cash and cash equivalents - Beginning of period</b>	-
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<b>Cash and cash equivalents - End of period</b>	4,171,531
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<b>Reconciliation of cash, cash equivalents, and restricted cash reported in the balance sheet</b>	
Cash and cash equivalents	3,371,531
Restricted cash	800,000
<b>Total cash, cash equivalents, and restricted cash shown in the statement of cash flows</b>	4,171,531

The accompanying notes are an integral part of these financial statements.

# Nixer Comp Reinsurance, Ltd.

Notes to the Financial Statements

December 31, 2020

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(expressed in U.S. dollars)

## 1. *The Company and its activities*

Nixer Comp Reinsurance, Ltd. ("the Company") was incorporated as an exempted company under the laws of Bermuda on April 1, 2020. The Company holds a Class 3A Insurance License, pursuant to Section 4 of the Insurance Act 1978 of Bermuda and related regulations (the "Act"). The Company is wholly owned by Nixer Comp Inc., ("the Parent"), a US registered company.

The principal activity of the Company is to reinsure Workers Compensation risks in the US marketplace and assumes 90% for the first \$1M of losses excess of deductibles, Service American Indemnity Company ("SAIC") retains 10%. The Company also has a Retrocession Agreement with Service Lloyds Insurance Company ("SLIC") in which each and every claim above \$250K of the \$900K is covered by SLIC.

In addition, the Company purchased reinsurance for claims in excess \$1M and up to \$39M, as part of the Quota Share Agreement with SAIC.

The Company has partnered with a claims TPA, Cannon Cochran Management Services, Inc ("CCMSI") to provide the insured with unlimited access to claims consultants regarding technical expertise in coverage interpretation, as well as proactive monitoring of new and ongoing claim activity and loss runs.

## 2. *Significant accounting policies*

These financial statements have been prepared in accordance with accounting 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 disclosures of contingent assets and liabilities at 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. The significant accounting policies are summarized as follows:

### (a) **Cash and cash equivalents**

Cash and cash equivalents include amounts held in banks and time deposits having original maturities within three months. The carrying amount approximates fair value because of the short maturity of these balances.

### (b) **Reserves for loss and loss adjustment expenses**

The reserve for losses and loss adjustment expenses consists of estimates of unpaid reported losses and loss adjustment expenses and estimates for losses incurred but not reported. The reserve for unpaid reported losses and loss adjustment expenses, established by management based on reports from ceding companies and claims from insureds, represents the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company. Such reserves are supplemented by management's estimates of reserves for losses incurred for which reports or claims have not been received. The Company's reserves are based on a combination of reserving methods, incorporating ceding company and industry loss development patterns.

Management believes that the provision for outstanding losses and loss adjustment expenses will be adequate to cover the ultimate net cost of losses incurred to the balance sheet date but the provision is necessarily an estimate 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. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

# Nixer Comp Reinsurance, Ltd.

## Notes to the Financial Statements

December 31, 2020

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(expressed in U.S. dollars)

(c) **Provision for unpaid claims recoverable**

Losses recoverable from reinsurers are recorded net of any provision for amounts which are not expected to be recoverable from reinsurers. Reserves are established on the same basis as the provision for unpaid claims and claims expenses.

(d) **Gross premiums written and unearned premium**

Due to the nature of the workers compensation contracts written by the Company, which have a premium based upon changes in the activities of the insured and the right to cancel the policy and discontinue future payments by the policyholder, premiums are written on an installment basis when due to match the billing to the policyholder and earned over the period of cover relating to the installment.

(e) **Reinsurance premiums ceded and deferred reinsurance ceded**

Reinsurance premiums ceded are expensed pro-rata over the term of the reinsurance policies. The portion of the reinsurance premium related to the unexpired portions of the policies at the end of the fiscal year is reflected in deferred reinsurance premiums.

(f) **Acquisition costs**

Acquisition costs are comprised of fronting company fees, premium taxes that relate directly to the acquisition of premiums, commissions, and fees of third-party service providers. These costs are incurred and paid on an installment basis to match the billing of the service providers.

(g) **Taxation**

The Company accounts for income taxes under the provisions of Accounting Standards Codification ("ASC") 740 - "Income Taxes". Under the asset and liability method of ASC 740, deferred tax assets and liabilities are recognized 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 ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date and deferred tax assets are recognized if it is more likely than not that a benefit will be realized.

As required by the uncertain tax position guidance in ASC 740, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company applies the uncertain tax position guidance in ASC 740 to all tax positions for which the statute of limitations remains open.

(h) **Short-duration contracts**

In May 2015, the FASB issued ASU 2015-09, which makes targeted improvements to disclosure requirements for insurance companies that issue short-duration contracts. The ASU requires enhanced disclosures, on an annual basis, related to the reserve for losses and loss expenses which include (1) net incurred and paid claims development information by accident year, (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the reserve for losses and LAE, (3) for each accident year presented of incurred claims development, information about claim frequency (unless impracticable), and the amounts of IBNR liabilities, including expected development on reported claims, included in the reserve for losses and LAE, (4) a description of, and any significant changes to the methods for determining both IBNR and expected development on reported claims, and (5) for each accident year

# Nixer Comp Reinsurance, Ltd.

Notes to the Financial Statements

December 31, 2020

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(expressed in U.S. dollars)

presented of incurred claims development, quantitative information about claims frequency, as well as a description of methodologies used for determining claim frequency information. The ASU is effective for annual periods beginning after December 15, 2016.

(i) **Use of estimates**

The financial statements include amounts based on informed estimates and judgments of management for those transactions that are not yet complete or for which the ultimate effects cannot be precisely determined. Such estimates and judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates to the balance sheet date.

(j) **Interest income and general administrative expenses**

Interest income and general and administrative expenses are recognized on the accrual basis of accounting.

(k) **Funds withheld**

The Company collects collateral deposits and claim deductible deposits from its insureds monthly. Assets held within the clients have been recorded within these financial statements as cash and cash equivalents and the corresponding liabilities are recorded as funds withheld.

### 3. **Income taxes**

#### **Bermuda**

Under current Bermuda law, the Company is not required to pay taxes in Bermuda on income, profit, or capital gains. The Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 2035.

#### **United States**

Nixer made the election under Section 953(d) of US Internal Revenue Code of 1986, as amended, to be taxed as a U.S. domestic corporation effective April 1, 2020 and is subject to U.S. federal and state income taxation on its income.

The income tax benefit of \$226,947 recognized in the statement of income and comprehensive income for the period ended December 31, 2020, comprises:

	<b>2020</b>
	<b>\$</b>
Federal income taxes	
Current (benefit) expense	-
Deferred (benefit) expense	(226,947)
Total income tax benefit	<u>(226,947)</u>

# Nixer Comp Reinsurance, Ltd.

Notes to the Financial Statements

December 31, 2020

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(expressed in U.S. dollars)

The deferred tax asset from continuing operations for the period ended December 31, 2020, comprises:

	<b>2020</b>
	<b>\$</b>
Deferred income tax assets:	
Net operating loss	213,922
Loss reserves	9,892
Amortization of incorporation expenses	6,519
	<u>230,333</u>
Deferred income tax liabilities:	
Deferred acquisition cost	<u>3,386</u>
Net deferred tax assets	<u>226,947</u>

The effective tax rate for the period is 21%, consistent with US tax laws and regulations. The Company had net operating loss as at December 31, 2020 of \$1,018,677, which will expire if unused in 2020.

There was no valuation allowance for deferred tax assets as of December 31, 2020 since it is management's belief that it is more likely than not that the deferred tax assets will be realized. However, the amount of deferred tax assets could be reduced in the near term if estimates of future taxable income are reduced.

Management has evaluated the Company's tax positions as at December 31, 2020, and no accrual has been established for uncertain tax positions.

#### **4. Reserves for loss and loss adjustment expenses**

The provision for unpaid claims and claims expenses and the related reinsurance recoverable represent estimates which are subject to variability, and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts or significant changes in the severity or frequency of claims from historical trends. The estimates are principally based on the Company's historical experience. Methods of estimation have been used which the Company believes produce reasonable results given current information.

# Nixer Comp Reinsurance, Ltd.

Notes to the Financial Statements

**December 31, 2020**

(expressed in U.S. dollars)

Reserve activity for claims and claims expenses is summarized below:

	<b>2020</b>
	<b>\$</b>
Balance - Beginning of period	-
Less: Amount recoverable from reinsurers – Beginning of period	-
Net balance – Beginning of period	-
Net claims and claims expenses incurred for the year related to:	
Current underwriting year	757,263
Prior underwriting years	-
Total incurred	757,263
Less: Net paid claims and claims expenses for the year related to:	
Current underwriting year	(33,351)
Prior underwriting years	-
Total paid	(33,351)
Net balance – End of period	723,912
Add: Amounts recoverable from reinsurers – End of period	148,653
Balance - End of period	872,565

The December 31, 2020 period-end balance comprises provisions for reported claims of \$74,253 and provisions for claims incurred but not reported of \$798,312.

The Company uses a combination of methods to project ultimate losses for all lines of business, which include:

<b>Workers compensation</b>			
<b>Incurred losses and allocated loss adjustment expenses, net of reinsurance</b>			
	Period ended December 31	December 31, 2020	December 31, 2020
Accident year	2020 Audited	Total of IBNR liabilities, net of reinsurance	Cumulative claims count
2020	107,604	649,659	71
<b>Total</b>	107,604	649,659	
Cumulative paid losses and loss adjustment expenses from the table below	33,351	-	
Reserves for loss and loss expenses, net of reinsurance	74,253	649,659	

<b>Workers compensation</b>	
<b>Paid loss and loss expenses by accident year, net of reinsurance recoveries</b>	
Accident year	2020
2020	33,351
<b>Total</b>	<b>33,351</b>

# Nixer Comp Reinsurance, Ltd.

Notes to the Financial Statements

December 31, 2020

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(expressed in U.S. dollars)

## Reconciliation of loss development information to the reserves for losses and loss expenses

The reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses in balance sheet is as follows:

	December 31, 2020
Reserves for loss and loss adjustment expenses, net of recoverable	723,912
Reserves for loss and loss adjustment expenses recoverable	148,653
<b>Total reserves for loss and loss adjustment expenses</b>	<b>872,565</b>

The following table presents supplementary information about average historical claims duration as of December 31, 2020 based on cumulative incurred and paid losses and allocated loss adjustment expenses presented above.

<b>Average annual percentage payout of incurred losses and loss adjustment expenses by age, net of reinsurance (unaudited)</b>	
	Year 1
Workers compensation	21.89%

At December 31, 2020, the Company had only 8 months of business arising from 12 temporary staffing agencies to report. The total written and earned premium as of December 31, 2020 was \$1,647,048 before the 90% quota share agreement. The Company reports all premiums and losses before quota share. The loss run received from this business shows 71 reported claims.

The volume of loss information is too small and too immature for traditional actuarial methods to be performed on the Company's losses. Instead, management relied on industry expected loss ratios to calculate the company's IBNR.

## 5. Reinsurance

In the ordinary course of business, the Company cedes reinsurance to other insurance companies. Ceded reinsurance arrangements allow for greater diversification of business and limit the net loss potential arising from large risks.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in additional losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. As of December 31, 2020, the Company did not have any reinsurance recoverable balances from the reinsurance market.

Allowances are established for amounts deemed uncollectible. There are no allowances for uncollectible reinsurance as at December 31, 2020.

# Nixer Comp Reinsurance, Ltd.

## Notes to the Financial Statements

December 31, 2020

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(expressed in U.S. dollars)

### **6. Reinsurance balances receivable**

Reinsurance balance receivables are due from SAIC. They relate to the policies written during the month of December 2020 for the workers compensation program in the amount of \$375,916.

At December 31, 2020, collateral deposits and claim deductible deposits were receivable in the amount of \$41,952 and \$46,916 respectively, which are part of the funds withheld the Company holds from its insureds.

### **7. Reinsurance balances payable**

Reinsurance balance payable are due to be paid to SLIC. They relate to the reinsurance policy ceded for the workers compensation program and the total balance due at December 31, 2020 was \$245,073.

### **8. Acquisition cost payable**

The Company had acquisition costs payable as at December 31, 2020 in the amount of \$203,965 and was payable to various service providers for the workers compensation program in place.

### **9. Concentration risk**

As of December 31, 2020, the Company's cash and cash equivalents are held by one financial institution.

### **10. Restricted cash and cash equivalents/balances**

At December 31, 2020, the Company has cash and cash equivalents held in trust of \$800,000 as security for reinsurance agreements.

At December 31, 2020, the Company has cash and cash equivalents of \$14,219 in an escrow account with CCMSI, as a fund for monthly losses.

### **11. Credit risk**

Credit risk arises from the failure of the counterparty to perform according to the terms of a contract. The Company's deposits are with a large, well-capitalized bank to minimize this risk and its credit rating is A- which support management's position that limited risk exists.

The Company is exposed to credit risk on its insurance receivable balances. Management will strictly monitor timely receipt of the premiums. Regular review of reserves and claims to identify potential adverse development to ensure sufficient assets are available to settle claims. Both SAIC and SLIC are A- rated by AM Best.

### **12. Currency risk**

100% of balances are held in USD and currency risk is considered to be low.

# Nixer Comp Reinsurance, Ltd.

Notes to the Financial Statements

December 31, 2020

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(expressed in U.S. dollars)

## **13. Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet its commitments. The company monitors actual and expected cash balances and cash flows to ensure sufficient liquid funds are available to cover anticipated expenses.

## **14. Share capital and contributed surplus**

Share capital consists of 120,000 authorized, issued for cash and fully paid common shares of a par value of \$1.00 each as of December 31, 2020.

Nixer Comp Inc., made contributions to surplus as of December 31, 2020 in the amount of \$3,823,375.

## **15. Statutory requirements**

The Bermuda Insurance Act 1978 and Related Regulations requires the Company to maintain a minimum statutory capital and surplus (Enhanced Capital Requirement or "ECR") at least equal to the greater of a minimum solvency margin or the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR is calculated based on a standardized risk-based capital model. Statutory capital and surplus at December 31, 2020 was \$3,050,211 and the amount required to be maintained by the Company was \$1,000,000. The Company met the minimum solvency margin at December 31, 2020 and exceeded minimum solvency requirements by \$869,685.

Statutory capital and surplus as reported under The Insurance Act is different from shareholder's equity as determined in conformity with accounting principles generally accepted in the United States of America ("GAAP") due to certain items that are capitalized under GAAP but expensed under the Act. As at December 31, 2020, the reconciling items are prepaid expenses of \$6,375.

## **16. Subsequent events**

Management has evaluated subsequent events for recognition and disclosure to April 28, 2021, which is the date that the financial statements were available to be issued. No such events noted.