

FINANCIAL STATEMENTS

Sequentis Reinsurance Company Limited
As of and for the Years Ended
December 31, 2020 and 2019
With Report of Independent Auditors

Sequentis Reinsurance Company Limited

Financial Statements

As of and for the Years Ended December 31, 2020 and 2019

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Report of Independent Auditors

The Board of Directors
Sequentis Reinsurance Company Limited

We have audited the accompanying financial statements of Sequentis Reinsurance Company Limited, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations and comprehensive income, changes in shareholders' 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 of America. Those standards require that we plan and perform the audit 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 entity'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 entity'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 Sequentis Reinsurance Company Limited at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that the incurred and paid claims development for periods prior to the most recent reporting period (not to exceed prior periods) and average annual percentage payout of incurred claims disclosed on page 19 to 20 be presented to supplement the consolidated financial statements. Such information, although not a part of the financial statements, is required by the FASB who considers it to be an essential part of financial reporting for placing the 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, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Ernst + Young LLP

June 28, 2021

Sequentis Reinsurance Company Limited

Balance Sheets

	December 31	
	2020	2019
	<hr/>	<hr/>
Assets		
Invested assets:		
Fixed maturity securities available-for-sale, at fair value (amortized cost: \$21,024,045 at 2020. \$4,249,985 at 2019)	\$ 21,450,313	\$ 4,255,299
Investment in Limited Partnership, at fair value (amortized cost: \$59,235,020 at 2020. \$70,750,000 at 2019)	76,251,400	79,457,646
Total invested assets	<hr/> 97,701,713	<hr/> 83,712,945
Cash and cash equivalents	66,748,252	13,559,160
Investment income due and accrued	89,281	11,309
Deferred policy acquisition costs	6,695,840	11,748,236
Income tax receivable	196,427	785,073
Receivable from affiliate	22,622,927	9,491,752
Deferred income tax asset, net	566,909	-
Other assets	147,603	119,864
Total Assets	<hr/> 194,768,952	<hr/> 119,428,339
 Liabilities, and shareholders' equity		
Liabilities:		
Reserve for losses and loss adjustment expenses	51,817,945	10,994,003
Unearned premiums	61,762,412	30,916,414
Deferred income tax liability, net	-	2,079,874
Payable to affiliate	-	-
Accrued expenses and other liabilities	275,628	50,000
Total Liabilities	<hr/> 113,855,985	<hr/> 44,040,291
 Shareholders' equity:		
Common Shares – \$1.00 par value; 120,000 shares issued and outstanding	120,000	120,000
Additional paid-in capital	83,707,500	70,632,500
Retained (Deficit) Earnings	(3,251,285)	4,631,350
Accumulated other comprehensive income	336,752	4,198
Total shareholders' equity	<hr/> 80,912,967	<hr/> 75,388,048
 Total liabilities and shareholders' equity	<hr/> \$ 194,768,952	<hr/> \$ 119,428,339

See accompanying notes.

Sequentis Reinsurance Company Limited

Statements of Operations and Comprehensive (Loss) Income

	Year Ended December 31, 2020	Year Ended December 31, 2019
Revenues		
Assumed written premiums	\$ 108,899,798	\$ 47,954,453
Change in unearned premium	(30,845,999)	(30,916,414)
Net premiums earned	78,053,799	17,038,039
Net investment income	8,042,666	7,044,396
Total Revenues	86,096,465	24,082,435
Expenses		
Assumed losses and loss adjustment expense	64,017,014	12,809,018
Underwriting, acquisition, and insurance expenses	17,485,712	6,493,048
Professional fees	688,792	328,404
Other expenses	288,407	39,646
Management fees	13,136,293	-
Interest expense	509,419	-
Total expenses	96,125,637	19,670,116
Net (loss) income before income taxes	(10,029,172)	4,412,319
Federal and state income tax (benefit) expense	(2,146,537)	1,293,685
Net (loss) income	(7,882,635)	3,118,634
Other comprehensive income:		
Unrealized gains, net of taxes	332,554	4,198
Total comprehensive (loss) income	\$ (7,550,081)	\$ 3,122,832

See accompanying notes.

Sequentis Reinsurance Company Limited

Statements of Changes in Shareholder's Equity

	Common Shares	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at January 1, 2019	\$ 120,000	\$ 66,882,500	\$ 1,512,716	\$ -	\$ 68,515,216
Contributions	-	3,750,000	-	-	3,750,000
Distributions	-	-	-	-	-
Net income	-	-	3,118,634	-	3,118,634
Other comprehensive income, net of taxes	-	-	-	4,198	4,198
Balance at December 31, 2019	120,000	70,632,500	4,631,350	4,198	75,388,048
Contributions	-	15,075,000	-	-	15,075,000
Distributions	-	(2,000,000)	-	-	(2,000,000)
Net loss	-	-	(7,882,635)	-	(7,882,635)
Other comprehensive income, net of taxes	-	-	-	332,554	332,554
Balance at December 31, 2020	\$ 120,000	\$ 83,707,500	\$ (3,251,285)	\$ 336,752	\$ 80,912,967

See accompanying notes.

Sequentis Reinsurance Company Limited

Statements of Cash Flows

	Year Ended December 31 2020	Year Ended December 31 2019
Operating Activities		
Net (loss) income	\$ (7,882,635)	\$ 3,118,634
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Net gains and losses allocated from investment in Limited Partnership/ZP Master Utility Fund, Ltd.	(8,308,734)	(6,947,345)
Amortization of premium on fixed maturity securities	64,038	1,176
Deferred income taxes	(2,735,183)	2,078,758
Changes in operating assets and liabilities:		
Investment income due and accrued	(77,972)	(11,309)
Deferred policy acquisition costs	5,052,396	(11,748,236)
Other assets	(27,739)	(113,616)
Receivable from affiliates	(13,131,175)	(9,491,752)
Income tax receivable	588,646	(785,073)
Accrued expenses and other liabilities	225,628	(203,596)
Reserve for losses and loss adjustment expenses	40,823,942	10,994,003
Unearned premiums	30,845,998	30,916,414
Net cash provided by operating activities	45,437,210	17,808,058
Investing Activities		
Purchase of Limited Partnership/ZP Master Utility Fund, Ltd	(42,485,020)	(3,750,000)
Redemptions from ZP Master Utility Fund, Ltd	54,000,000	-
Purchase of fixed maturity securities	(18,513,811)	(4,281,671)
Sale of fixed maturity securities	1,675,713	30,510
Net cash used in investing activities	(5,323,118)	(8,001,161)
Financing Activities		
Contributions	15,075,000	3,750,000
Distributions	(2,000,000)	-
Net cash provided by financing activities	13,075,000	3,750,000
Net change in cash and cash equivalents	53,189,092	13,556,897
Cash and cash equivalents, at beginning of year	13,559,160	2,263
Cash and cash equivalents, at end of year	\$ 66,748,252	\$ 13,559,160

See accompanying notes.

Sequentis Reinsurance Company Limited

Notes to the Financial Statements

1. Organization

Sequentis Reinsurance Company Limited (“Sequentis Re”, the “Company”) was incorporated under the laws of Bermuda on October 18, 2017 and commenced operations on April 1, 2018. Sequentis Re is a provider of global specialty property and casualty reinsurance products. Sequentis Re is a 100% owned subsidiary of Sequentis Specialty Holdings Limited, an intermediate holding company incorporated on October 10, 2017, and domiciled in Bermuda. Sequentis Specialty Holdings Limited is owned 100% by Ategrity Specialty Holdings, LLC, a holding company incorporated September 22, 2017, in Delaware. Ategrity Specialty Holdings, LLC’s sole purpose is to own and operate various insurance companies. Sequentis Re’s sole customer is its related party, Ategrity Specialty Insurance Company, which is a 100% owned subsidiary of Ategrity Specialty Holdings, LLC.

As of December 31, 2020, and 2019, Sequentis Re directly owned approximately 67% and 86% of ZP Utility Insurance Fund, L.P. (the “Limited Partnership”). The Limited Partnership was formed on March 19, 2018, under the laws of the State of Delaware and commenced operations on April 1, 2018. The Limited Partnership operates as a feeder fund in a “master-feeder” structure, where the Limited Partnership invests substantially all of its assets in ZP Master Utility Fund, Ltd. (the “Master Fund”), an exempted company incorporated in the Cayman Islands. The Master Fund’s investment objective is to employ an energy and infrastructure-focused, long/short strategy which seeks to deliver absolute returns in all market conditions with minimal correlation to energy sector indices and broader market indices. The Master Fund invests primarily in the equities of electric and gas utilities, integrated utilities, water utilities, telecommunication companies, independent power producers and pipelines, exploration and production companies, oilfield service companies and more broadly in energy and infrastructure-related industries (such as chemicals, materials, transportation infrastructure and real estate equities). The Master Fund’s portfolio is generally managed to be balanced.

Zimmer Partners, LP (the “Investment Manager”), a Delaware limited partnership, is the investment manager of the Master Fund and the Limited Partnership. The Investment Manager is registered with the United States Securities and Exchange Commission as a registered investment advisor under the Investment Advisors Act of 1940. ZP Utility Insurance GP, LLC (the “General Partner”), a Delaware Limited Liability Company, is the general partner of the Limited Partnership and is responsible for the investment decisions of the Limited Partnership.

The Investment Manager manages and advises accounts for certain of its affiliates other than the Limited Partnership, some of which may pursue similar investment strategies as the Master Fund, and which, as a result, may hold similar or identical investments as those held by the Master Fund.

As of February 1, 2019, a non-controlling interest increased its contribution in the Limited Partnership, which reduced Sequentis Re’s ownership interest in the Limited Partnership and no longer has “substantially all” of the economics interest. This led to a change in control of the Limited Partnership and the Limited Partnership was deconsolidated from Sequentis Re’s financial statements. No gain or loss was recognized as a result of the change in control.

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which vary in some respects from statutory accounting practices (“SAP”) which are prescribed or permitted by the various state insurance departments in the U.S. The accompanying financial statements include the accounts and operations of the Company.

Estimates and Assumptions

The preparation of the Company’s financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Company’s financial statements, supplementary information and accompanying notes. Management makes estimates and assumptions that include, but are not limited to, the determination of the following significant items:

- Fair value of financial assets and liabilities, including, but not limited to, securities, loans and derivatives
- Reserves for unpaid losses and loss adjustment expenses, estimated future claims and losses, potential litigation and other claims;
- Revenue recognition including, but not limited to, the timing and amount of insurance premiums, service, administration fees, and loan origination fees;
- Federal income taxes; and
- Other matters that affect the reported amounts and disclosure of contingencies in the financial statements

Although these and other estimates and assumptions are based on the best available estimates, actual results could differ materially from management’s estimates.

Reclassification

Certain amounts have been reclassified to conform to current year presentation. Such reclassifications have no effect on net income.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of December 31, 2020, and 2019, there was \$11,475,895 and \$3,312,932, respectively, held in cash by two major financial institutions with daily liquidity. The cash amount on deposit may exceed the insured limit of the institution and exposes the Company to credit risk. As of December 31, 2020, and 2019, the Company held \$55,272,357 and \$10,246,228, respectively, in cash equivalents.

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Fixed Maturity Securities and Limited Partnership

Fixed maturity securities classified as “available-for-sale” are carried at fair value, and unrealized gains and losses on such securities, net of any deferred taxes, are reported as a separate component of accumulated other comprehensive income. Fixed maturity securities purchased for short-term resale are classified as Cash and Cash Equivalents and are carried at fair value with unrealized gains and losses included in earnings as a component of net investment income.

The Company does not have any securities classified as “held-to-maturity”.

Realized investment gains or losses are determined on a specific identification basis. Interest income is recognized as earned, and dividend income is recognized on the ex-dividend date.

Fair value generally represents quoted market value prices for securities traded in the public marketplace or prices analytically determined using bid or closing prices for securities not traded in the public marketplace. The Company values its Investment in Limited Partnerships at fair value, which is estimated based on the Company’s share of the net asset value (“NAV”) of the limited partnership as provided by the investment manager of the underlying investment funds. Changes in investment value on the portion of the Company’s investment still held in the Limited Partnership, are considered unrealized. These unrealized gains or losses are reflected in the statements of comprehensive income as part of investment income. When any amount of the investment in the Limited Partnership is disposed of, realized gain/losses are recorded accordingly.

The Company evaluates its available-for-sale investments regularly to determine whether there are declines in value that are other-than-temporary. The Company’s outside investment managers assist the Company in this evaluation.

When the Company determines that a security has experienced an other-than-temporary impairment, the impairment loss is recognized as a realized investment loss. The factors that the Company considers in evaluating whether such an other-than-temporary impairment has occurred include the amount and percentage that fair value is below amortized cost or cost and the length of time that fair value has been below amortized cost or cost. For fixed maturity securities, the Company considers the credit quality rating of the security, with a special emphasis on securities downgraded below investment grade. Management does not intend to sell available-for-sale fixed maturity securities in an unrealized loss position, and it is not “more likely than not” that the Company will be required to sell these securities before a recovery in fair value to their amortized cost basis occurs. For the Investment in Limited Partnership, management evaluates the near-term prospects of the investment in relation to the severity and duration of the impairment, and the Company’s ability and intent to hold this investment until a recovery of fair value occurs. There are no other-than-temporary impairments on any of the Company’s investments.

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The fair value of the Company's assets and liabilities, which qualify as financial instruments under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 825, *Financial Instruments*, approximates the carrying amounts presented in the financial statements.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Premium Deficiency Reserves

Premium deficiency reserves are established for the amount of the anticipated losses, loss adjustment expenses, commissions and other acquisition costs and maintenance costs that have not previously been expensed that are in excess of the recorded unearned premium reserve and future installment premiums on existing policies. Sequentis Re does not consider anticipated investment income when calculating their premium deficiency reserves. No premium deficiency reserves were recorded by Sequentis Re as of December 31, 2020 or 2019.

Assumed Reinsurance Premiums

Assumed reinsurance written premiums are earned on a pro rata basis over the terms of the policies, generally 12 months. The portion of premiums assumed applicable to the unexpired terms of the policies in force is recorded as unearned premiums. Policies are accounted for on an individual basis, with no aggregation by counterparty.

Premiums Receivable, Net

Premiums receivable are carried at face value net of any allowance for doubtful accounts. The allowance for doubtful accounts represents an estimate of amounts considered uncollectible based on Sequentis Re's assessment of the collectability of receivables that are past due. As of December 31, 2020, and 2019, Sequentis Re had no allowance for doubtful accounts.

Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Deferred Policy Acquisition Costs

Costs which are incrementally or directly related to the successful acquisition of new or renewal insurance business are deferred. These deferred costs are primarily commissions to agents and the portion of underwriting fixed compensation and payroll related fringe benefits directly related to an insurance contract that has been acquired, net of ceding commissions related to reinsurance ceded. Amortization of such policy acquisition costs is charged to expense in proportion to premium earned over the estimated policy life. To the extent that unearned premiums on existing policies are not adequate to cover projected related costs and expenses, deferred policy acquisition costs are charged to earnings.

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investment in Limited Partnership/ZP Master Utility Fund, Ltd.

The Company records its investment in the Limited Partnership/Master Fund at fair value, which is equal to the Company's proportionate share of the fair value of the underlying net assets of the Limited Partnership/Master Fund. Unrealized gains and losses on the investment are included in income. At December 31, 2020 and 2019, the Company's investment in the Limited Partnership was \$76,251,400 and \$79,457,646, which represents approximately 2.43% and 3.04% of the net assets of the Master Fund, respectively. The performance of the Company is directly affected by the performance of the Limited Partnership/Master Fund.

Upon written notice provided at least 45 days prior to the withdrawal date, the investment in the Master Fund may be withdrawn at the end of each calendar quarter to the extent required to pay insurance claims, to pay for reasonable operating expenses or in the event Sequentis Re receives a notification from A.M. Best, or Sequentis Re is required to diversify its assets pursuant to any law, order or regulation.

Income Tax

During 2020, Sequentis Re made an irrevocable election to be taxed as a U.S. domestic corporation under Section 953(d) of the Code. This election is effective retroactively to January 1, 2019. As a result, Sequentis Re is subject to U.S. federal income taxes.

Deferred income tax assets and deferred income tax liabilities are provided for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective U.S. tax bases. Deferred income tax assets and liabilities are measured using enacted U.S. corporate tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred income tax assets are reduced by a valuation allowance only when management believes it is more likely than not that some, or all, of the deferred tax assets will not be realized.

Reserve for Unpaid Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses represents the estimated ultimate cost of all reported and unreported losses and loss adjustment expenses incurred and unpaid at the balance sheet date. Sequentis Re does not discount this reserve. The process of estimating the reserve for losses and loss adjustment expenses requires a high degree of judgment and is subject to a number of variables. The estimates are based on actuarial methods that use a combination of management's initial expected loss ratios and reporting patterns for those losses based on industry data and Sequentis Re's actual reported losses and loss adjustment expenses. If actual loss emergence is better than initial expected ratio assumptions, Sequentis Re will experience favorable development and if it is worse than initial expected ratio assumptions, Sequentis Re will experience adverse development.

Catastrophes of significant magnitude, including hurricanes and earthquakes, involve complex coverage issues. In estimating the reserve for losses and loss adjustment expenses for these catastrophes, management uses case reserve estimates based on information obtained from site inspections by Sequentis Re's adjustors and the terms of coverage provided in the policies. Management estimates reserves for incurred but not reported claims for these catastrophes using judgment based on an assessment of Sequentis Re's property insurance exposures where the catastrophes occur and Sequentis Re's progress in settling claims.

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Reserve for Unpaid Losses and Loss Adjustment (continued)

Although management believes that the reserve for losses and loss adjustment expenses is reasonable, it is possible that Sequentis Re's actual incurred losses and loss adjustment expenses will not develop in a manner consistent with the assumptions inherent in the determination of these reserves. Specifically, Sequentis Re's actual ultimate loss ratio could differ from management's initial expected loss ratio and/or Sequentis Re's actual reporting patterns for losses could differ from the expected reporting patterns. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimates included in Sequentis Re's financial statements. These estimates are reviewed regularly by management and are adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

3. Investments

The Company's available-for-sale investments are summarized as follows:

	<u>Cost or Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2020				
Municipal-Taxable	\$ 2,440,710	\$ 101,168	\$ -	\$ 2,541,878
Commercial mortgage and asset-backed Corporates	6,195,179	101,386	(782)	6,295,783
U.S. Treasury securities and obligations guaranteed by the U.S. government	7,347,187	213,794	(616)	7,560,365
	5,040,969	12,059	(741)	5,052,287
Total fixed maturity securities	21,024,045	428,407	(2,139)	21,450,313
Limited Partnership	59,235,020	17,016,380	-	76,251,400
Total investments available-for-sale	<u>\$ 80,259,065</u>	<u>\$ 17,444,787</u>	<u>\$ (2,139)</u>	<u>\$ 97,701,713</u>

	<u>Cost or Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2019				
Municipal-Taxable	\$ 975,000	\$ 1,004	\$ (476)	\$ 975,528
Commercial mortgage and asset-backed	2,275,666	5,667	-	2,281,333
U.S. Treasury securities and obligations guaranteed by the U.S. government	999,319	-	(881)	998,438
Total fixed maturity securities	4,249,985	6,671	(1,357)	4,255,299
Limited Partnership	70,750,000	8,707,646	-	79,457,646
Total investments available-for-sale	<u>\$ 74,999,985</u>	<u>\$ 8,714,317</u>	<u>\$ (1,357)</u>	<u>\$ 83,712,945</u>

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

3. Investments (continued)

The amortized cost and fair value of available-for-sale investments are summarized, by contractual maturity, as follows:

	Amortized Cost	Fair Value
December 31, 2020		
One year or less	\$ 999,707	\$ 1,010,157
After one year through five years	11,278,681	11,519,958
After five years through ten years	1,642,337	1,689,084
After ten years	908,141	935,331
Residential mortgage-backed	4,480,954	4,579,857
Commercial mortgage and asset-backed	504,745	506,010
Other Loan-backed	1,209,479	1,209,916
Total	\$ 21,024,044	\$ 21,450,313
 December 31, 2019		
		\$
One year or less	\$ -	-
After one year through five years	1,699,318	1,699,283
After five years through ten years	275,000	274,682
After ten years	-	-
Residential mortgage-backed	2,275,666	2,281,334
Commercial mortgage and asset-backed	-	-
Other Loan-backed	-	-
Total	\$ 4,249,984	\$ 4,255,299

Actual maturities may differ for some securities because borrowers have the right to call or prepay obligations with or without penalties.

The following table shows the Company's gross unrealized losses and fair value for available-for-sale securities aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position:

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

3. Investments (continued)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2020						
Fixed maturity securities:						
Municipal Taxable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial mortgage and asset-backed	383,776	(782)	-	-	383,776	(782)
Corporates	264,612	(616)	-	-	264,612	(616)
U.S. Treasury securities and obligations guaranteed by the U.S. government	3,040,313	(741)	-	-	3,040,313	(741)
Total fixed maturity securities	3,688,701	(2,139)	-	-	3,688,701	(2,139)
Total investments available-for-sale	<u>\$3,688,701</u>	<u>\$ (2,139)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,688,701</u>	<u>\$ (2,139)</u>
December 31, 2019						
Fixed maturity securities:						
Municipal Taxable	\$ 149,525	\$ (476)	\$ -	\$ -	\$ 149,525	\$ (476)
Commercial mortgage and asset-backed	-	-	-	-	-	-
U.S. Treasury securities and obligations guaranteed by the U.S. government	998,438	(881)	-	-	998,438	(881)
Total fixed maturity securities	1,147,963	(1,357)	-	-	1,147,963	(1,357)
Total investments available-for-sale	<u>\$1,147,963</u>	<u>\$ (1,357)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,147,963</u>	<u>\$ (1,357)</u>

The Company held securities of three issuers that were in an unrealized loss position as of December 31, 2020, with a total fair value of \$3,688,701 and gross unrealized loss of \$2,139. None of the fixed maturity securities with unrealized losses has ever missed, or been delinquent on, a scheduled principal or interest payment date.

The Company held securities of two issuers that were in an unrealized loss position as of December 31, 2019, with a total fair value of \$1,147,963 and gross unrealized loss of \$1,357. None of the fixed maturity securities with unrealized losses has ever missed, or been delinquent on, a scheduled principal or interest payment date.

As of December 31, 2020, and 2019, 100% of the Company's fixed maturity security portfolio was rated BBB+ or better (investment grade), by Standard and Poor's or received an equivalent rating from another nationally recognized rating agency.

Management does not intend to sell available-for-sale securities in an unrealized loss position, and it is not "more likely than not" that the Company will be required to sell these securities before a recovery in their value to their amortized cost basis occurs.

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

3. Investments (continued)

Major categories of the Company's net investment income from fixed maturity securities are summarized as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Income:		
Interest	\$ 258,648	\$ 14,238
Dividends	1,433	-
Bonds	14,670	82,813
Realized gains	1,355	-
Realized losses	(3,933)	-
Gross investment income	272,173	97,051
Investment Expense	(72,663)	-
Net investment income from Fixed Maturity Securities	\$ 199,510	\$ 97,051

The Company's net unrealized gains and losses on investments are summarized as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Limited Partnership:		
Change in fair value of Limited Partnership	\$ 7,843,156	\$ 6,947,345
Total	\$ 7,843,156	\$ 6,947,345

The following table summarizes the change in the Company's unrealized gains or losses on available-for-sale fixed maturity securities:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Fixed maturity securities		
Gross unrealized gains	\$ 421,736	\$ 6,671
Gross unrealized losses	(782)	(1,357)
Total	\$ 420,954	\$ 5,314

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

3. Investments (continued)

Assets measured at fair value on a recurring basis as of December 31, 2020 are summarized below:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Available-for-sale securities				
Fixed maturity securities:				
Commercial mortgage and asset-backed	\$ -	\$ 6,295,783	\$ -	\$ 6,295,783
Corporate	-	7,560,365	-	7,560,365
Municipal Taxable	-	2,541,878	-	2,541,878
U.S. Treasury securities and obligations guaranteed by the U.S. government	4,050,469	1,001,818	-	5,052,287
Money Market Fund ⁽¹⁾	55,272,357	-	-	55,272,357
Total fixed maturity securities	59,322,826	17,399,844	-	76,722,670
Equity securities:				
Limited Partnership	-	76,251,400	-	76,251,400
Total equity securities	-	76,251,400	-	76,251,400
Total available-for-sale securities	\$ 59,322,826	\$ 93,651,244	\$ -	\$152,974,070

⁽¹⁾ Represents short term securities included in cash and cash equivalents on the balance sheet.

Assets measured at fair value on a recurring basis as of December 31, 2019 are summarized below:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Available-for-sale securities				
Fixed maturity securities:				
Commercial mortgage and asset-backed	\$ -	\$ 2,281,333	\$ -	\$ 2,281,333
Municipal Taxable	-	975,528	-	975,528
U.S. Treasury securities and obligations guaranteed by the U.S. government ⁽²⁾	998,438	10,246,227	-	11,244,665
Total fixed maturity securities	998,438	13,503,088	-	14,501,526
Equity securities:				
Limited Partnership	-	79,457,646	-	79,457,646
Total equity securities	-	79,457,646	-	79,457,646
Total available-for-sale securities	\$ 998,438	\$ 92,960,734	\$ -	\$93,959,172

⁽²⁾ Includes \$10,246,227 of short-term securities included in cash and cash equivalents on the balance sheet.

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

4. Deferred Policy Acquisition Costs

An analysis of deferred policy acquisition costs follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Balance at beginning of year	\$ 11,748,236	\$ -
Policy acquisition costs deferred:		
Commissions	12,433,316	18,220,284
	12,433,316	18,220,284
Amortization of policy acquisition costs	(17,485,712)	(6,472,048)
Net change	(5,052,396)	11,748,236
Balance at end of year	\$ 6,695,840	\$ 11,748,236

5. Reserve for Losses and Loss Adjustment Expenses

The following table provides the beginning and ending reserve balances for losses and loss adjustment expenses, to the gross amounts reported in the balance sheet as of:

	December 31, 2020	December 31, 2019
Reserves for assumed losses and loss adjustment expenses at the beginning of the year	\$ 10,994,003	\$ -
Add: assumed loss and loss adjustment expenses:		
Current Year	64,140,804	12,809,018
Prior Year	(123,790)	-
Total assumed losses and loss adjustment expenses	64,017,014	12,809,018
Deduct: Loss and loss adjustment expenses payments:		
Current Year	17,880,022	1,815,015
Prior Year	5,313,050	-
Total assumed losses and loss adjustment payments	23,193,072	1,815,015
Reserves for losses and loss adjustment expenses at the end of the year	\$ 51,817,945	\$ 10,994,003

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

5. Reserve for Losses and Loss Adjustment Expenses (continued)

During the year ended December 31, 2020, our net incurred losses for accident year 2019 developed favorably by \$124 thousand. This favorable development was due to reported losses emerging at a lower level than expected, largely across our liability line of business.

The following table presents assumed and paid losses and loss adjustment expenses, as well as incurred-but-not-reported (“IBNR”) liabilities as of December 31, 2020 and 2019, for the Excess and Surplus Lines property and Excess and Surplus Lines casualty. The information provided herein about assumed and paid accident year claims development is presented as unaudited supplementary information.

Accident Year	Assumed Claims and Allocated Claim Adjustment Expenses		As of December 31, 2020	
	Year Ended December 31, 2019	Year Ended December 31, 2020	Total of IBNR Liabilities plus Expected Development on Reported Claims	Cumulative # of Reported Claims⁽¹⁾
Property				
2019	\$ 6,866,834	\$ 6,889,074	\$ 319,072	166
2020		38,824,151	7,099,623	524
Total		\$ 45,713,225		
⁽¹⁾ Claim count information is reported per claimant				
Accident Year	Cumulative Paid Claims and Allocated Claim Adjustment Expenses			
	Year Ended December 31, 2019	Year Ended December 31, 2020		
Property				
2019	\$ 1,504,925	\$ 6,628,165		
2020		17,107,730		
Total		23,735,895		
Liabilities for loss and loss adjustment expense		\$ 21,977,330		

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

5. Reserve for Losses and Loss Adjustment Expenses (continued)

Accident Year	Assumed Claims and Allocated Claim Adjustment Expenses		As of December 31, 2020	
	Year Ended December 31, 2019	Year Ended December 31, 2020	Total of IBNR Liabilities plus Expected Development on Reported Claims	Cumulative # of Reported Claims ⁽¹⁾
Casualty				
2019	\$ 5,374,523	\$ 5,228,491	\$ 4,755,937	31
2020		22,841,376	22,094,116	63
Total		<u>\$ 28,069,867</u>		

⁽¹⁾ Claim count information is reported per claimant

Accident Year	Cumulative Paid Claims and Allocated Claim Adjustment Expenses	
	Year Ended December 31, 2019	Year Ended December 31, 2020
Casualty		
2019	\$ 7,769	\$ 123,481
2020		251,888
Total		<u>375,369</u>
Liabilities for loss and loss adjustment expense		<u>\$ 27,694,498</u>

The following is supplementary information about average historical claims duration as of December 31, 2020:

	Average Annual Percentage ⁽¹⁾ Payout of Incurred Claims by Age	
	Year 1	Year 2
Property	40.7%	74.4%
Casualty	0.9%	2.2%

⁽¹⁾ Calculated using weighted average

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

5. Reserve for Losses and Loss Adjustment Expenses (continued)

The following table is a reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses in the balance sheets:

	December 31,	
	2020	2019
Net outstanding liabilities for loss and loss adjustment expenses:		
Property	\$ 21,977,330	\$ 5,361,909
Casualty	27,694,498	5,366,754
Liabilities for unpaid loss and loss adjustment expenses	49,671,828	10,728,663
Net unallocated claims adjustment expenses	2,146,117	265,340
Gross liability for unpaid loss and loss adjustment expense	\$ 51,817,945	\$ 10,994,003

Sequentis Re has not assumed reinsurance coverage that could reasonably be expected to produce material levels of asbestos claims activity. In addition, management does not believe that Sequentis Re is exposed to environmental liability claims other than those which it has specifically underwritten and priced as an environmental exposure.

Sequentis Re does not have any third-party reinsurance.

6. Shareholders' Equity

Sequentis Re's authorized common stock consists of 120,000 issued shares, \$1.00 par value, all of which are outstanding as of December 31, 2020 and 2019.

7. Income Taxes

The provision for federal income taxes is different from what would be obtained by applying the statutory federal income tax rate to income before income taxes. Total income tax consists of the following:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Federal income tax benefit at applicable statutory rates (current)	\$ 588,646	\$ (785,073)
Federal income tax benefit at applicable statutory rates (deferred)	(2,735,183)	2,078,758
Total income tax (benefit) expense	\$ (2,146,537)	\$ 1,293,685

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

7. Income Taxes (continued)

The significant components of the net deferred tax asset at the corporate income tax rate of 21% are as follows:

	As of December 31, 2020	As of December 31, 2019
Deferred tax assets:		
Unearned premiums	\$ 2,594,021	\$ 1,298,489
Reserve for losses and loss adjustment expenses	787,783	161,861
Total deferred tax assets	3,381,804	1,460,350
Deferred tax liabilities:		
Deferred policy acquisition costs	(1,406,126)	(2,467,130)
Pass - through entities	(1,312,108)	(1,071,978)
Unrealized gains on investment	(89,516)	(1,116)
Accrued market discount	(7,145)	-
Total deferred tax liabilities	(2,814,895)	(3,540,224)
Net deferred tax asset	\$ 566,909	\$ (2,079,874)

In 2019, there was a \$367,097 deferred tax adjustment on income from pass through entities due to the reconciliation of the effective tax rate and the statutory tax rate, as Sequentis Re was not subject to income taxes in the period ending on December 31, 2018. This was a one-time, non-recurring adjustment.

During 2020, Sequentis Re made an election to be taxed as a U.S. domestic corporation under Section 953(d) of the Code effective retroactively to January 1, 2019.

On April 1, 2018, Sequentis Re entered into a tax allocation agreement with its ultimate parent Sequentis Financial LLC and its affiliated companies. The tax sharing agreement provides for an allocation of income tax expense or benefit to each entity that is party to the agreement based on the applicable income tax that would have been incurred as if the entity filed a separate, standalone tax return.

Sequentis Re files a consolidated federal income tax return with the following entities:

- Sequentis Financial LLC
- Ategrity Specialty Insurance Company
- Ategrity Specialty Holdings LLC

Sequentis Re classifies all interest and penalties related to uncertain tax positions as income tax expense. Sequentis Re did not incur any interest or penalties related to uncertain tax positions during the year ended December 31, 2020 and 2019.

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

7. Income Taxes (continued)

The Company had no reserve for future tax contingencies or liabilities (unrecognized tax benefits) and no valuation allowance at December 31, 2020 and 2019, as the consolidated tax return in which the entities are included has several other profitable entities which would allow the benefit of any future reversing deferred tax assets to be realized.

The 2020 and 2019 tax years are open and subject to examination by the IRS.

8. Other Comprehensive Income

The following table summarizes the components of other comprehensive income:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Unrealized gains arising during the period, before U.S. income taxes	\$ 420,954	\$ 5,314
U.S. income tax expense	(88,400)	(1,116)
Unrealized gains arising during the period, net of U.S. income taxes	332,554	4,198
Other comprehensive income	\$ 332,554	\$ 4,198

9. Related Party Transactions

Sequentis Re and Ategrity Specialty Insurance Company Limited are the limited partners of the Limited Partnership and have entered into an Amended and Restated Limited Partnership Agreement with ZP Utility Insurance GP, LLC, the General Partner of the Limited Partnership. The sole owner of the General Partner is also the controlling shareholder of Ategrity Specialty Holdings, LLC, the parent (through an intermediate holding company) of Sequentis Re.

On January 1, 2019, Sequentis Re entered into a quota share reinsurance agreement with Ategrity Specialty Insurance Company. The agreement stipulates ceding of premiums net of third-party reinsurance to Sequentis Re from Ategrity Specialty Insurance Company. The agreement further provides for a ceding commission of 38% to Ategrity Specialty Insurance Company. In 2020, the agreement was amended to provide a 12.4% ceding commission which will be reviewed for adequacy on an annual basis by the Board of Directors. Additionally, the amendment provided for a management fee to be paid by Sequentis Re to Ategrity Specialty Insurance Company. This fee represents Sequentis Re's proportional share of Ategrity Specialty Insurance Company's operating expenses related to the business covered by the agreement. All premium revenues recorded were assumed from Ategrity Specialty Insurance Company under this agreement. Management fee expense was \$13,136,293 and \$0 for the years ended December 31, 2020 and 2019, respectively.

On February 24, 2020 with an effective date of 12/31/2019, US Bank issued a letter of credit agreement in the amount of \$15,000,000 for the benefit of Ategrity Specialty Insurance Company on behalf of Sequentis Re. This agreement was cancelled on November 17, 2020. As of December 31, 2020 and 2019 there was zero amount drawn on the agreement.

Sequentis Reinsurance Company Limited

Notes to the Financial Statements (continued)

9. Related Party Transactions (continued)

On December 21, 2020, with an effective date of December 21, 2020, JPMorgan Chase Bank issued a letter of credit agreement in the amount of \$35,000,000 for the benefit of Ategrity Specialty Insurance Company on behalf of Sequentis Re. On December 30, 2020, with an effective date of December 29, 2020, Barclays Bank issued a letter of credit agreement in the amount of \$35,000,000 for the benefit of Ategrity Specialty Insurance Company on behalf of Sequentis Re. As of December 31, 2020, there was zero amount drawn on these agreements.

10. Commitments and Contingencies

In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Company's maximum exposure under these arrangements cannot be estimated, as this would involve future claims that may be made against the Company that have not yet occurred. However, the Company expects the risk of loss to be remote.

11. Statutory Requirements

As a registered insurance company under the Bermuda 'Insurance Act 1978 amendments thereto and related regulations' ('the Act') the Company is required to prepare Statutory Financial Statements and to file a Statutory Financial Return annually (or as otherwise agreed, in certain circumstances). The Act also requires the Company to meet certain defined measures of solvency and liquidity. The statutory capital and surplus amounted to \$80,765,364 and \$75,268,183 as of December 31, 2020 and 2019, respectively. The Company has met the minimum statutory capital and surplus requirements as of December 31, 2020 and 2019. The principal difference between the Company's statutory capital and surplus and shareholders' equity as reported in conformity with generally accepted accounting principles relate to prepaid expenses which are non-admitted assets under the Act.

The Company is prohibited from declaring or paying a dividend if its Class 3A statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause such breach. Further, the Company must obtain the Authority's prior approval for a reduction by 15% or more of the total statutory capital or 25% of the total statutory capital and surplus, as set forth in its previous year's financial statements.

12. Subsequent Events

The Company has evaluated subsequent events through June 28, 2021, the date the financial statements were available to be issued.