

Financial Statements of

PHOEBE PUTNEY INDEMNITY, LTD.

July 31, 2019

PHOEBE PUTNEY INDEMNITY, LTD.

Table of Contents

	Page(s)
Independent Auditors' Report to the Directors	1-2
Balance Sheet	3
Statement of Operations and Comprehensive Income	4
Statement of Changes in Shareholder's Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7-19



KPMG
P.O Box 493
SIX Cricket Square
Grand Cayman KY1-1106
Cayman Islands
Telephone +1 345 949 4800

Independent Auditors' Report to the Directors

We have audited the accompanying financial statements of Phoebe Putney Indemnity, Ltd. (the "Company"), which comprise the balance sheet as of July 31, 2019, and the related statements of operations, comprehensive income, changes in shareholder's equity, and cash flows for the period from November 14, 2018 (date of incorporation) to July 31, 2019, 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 accordance 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 from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of July 31, 2019, and the results of its operations and its cash flows for the period from November 14, 2018 (date of incorporation) to July 31, 2019, in accordance with U.S. generally accepted accounting principles.



Independent Auditors' Report to the Directors (continued)

Other matter

U.S. generally accepted accounting principles require that the required supplementary information ("RSI") under *Accounting Standards Update 2015-09, Disclosure about Short-Duration Contracts* labelled as unaudited in Note 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the U.S. 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 RSI 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 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.

KPMG

October 7, 2019

PHOEBE PUTNEY INDEMNITY, LTD.

Balance Sheet

July 31, 2019

(stated in United States dollars)

	Note	2019
Assets		
Cash and cash equivalents	3, 4	80,067,758
Investments	4	15,075,662
Due from broker		27,020
Due from reinsurer		2,437,500
Reinsurance recoverable	5	6,108,025
Prepaid expenses		10,508
Interest receivable		28
<hr/>		
Total assets		US\$ 103,726,501
<hr/>		
Liabilities and shareholder's equity		
Liabilities		
Provision for outstanding claims	5	60,877,134
Losses payable		3,589,349
Ceded premiums payable		2,537,413
Accounts payable and accrued expenses		61,625
<hr/>		
		67,065,521
Shareholder's equity		
Share capital	6	1
Additional paid-in capital		11,074,700
Accumulated other comprehensive income		289,183
Retained earnings		25,297,096
<hr/>		
		36,660,980
<hr/>		
Total liabilities and shareholder's equity		US\$ 103,726,501

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors on October 7, 2019.

PHOEBE PUTNEY INDEMNITY, LTD.

Statement of Operations and Comprehensive Income

For the period from November 14, 2018 (date of incorporation) to July 31, 2019
(stated in United States dollars)

	Note	2019
Underwriting income		
Premium written		0
Movement in unearned premium		6,368,897
Reinsurance premiums ceded		21,899
Movement in reinsurance premium		(1,547,420)
		<u>4,843,376</u>
Underwriting expenses		
Claims paid	5	4,750,583
Reinsurance recoveries	5	(2,787,500)
Movement in provision for outstanding claims		193,495
Movement in reinsurance recoverable		1,454,661
		<u>3,611,239</u>
Net underwriting income		<u>1,232,137</u>
Net investment income	7	696,332
Administration expenses	8	(289,139)
Net income for period		<u>1,639,330</u>
Other comprehensive income		
Unrealised gains on investments arising during the year		526,525
Comprehensive income for period		<u>US\$ 2,165,855</u>

See accompanying notes to financial statements.

PHOEBE PUTNEY INDEMNITY, LTD.

Statement of Changes in Shareholder's Equity

For the period from November 14, 2018 (date of incorporation) to July 31, 2019

(stated in United States dollars)

	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
Capital contribution	1	99,999	0	0	100,000
Transfer from PPI, LLC on merger	0	10,974,701	(237,342)	23,657,766	34,395,125
Net income for period	0	0	0	1,639,330	1,639,330
Other comprehensive income for period	0	0	526,525	0	526,525
Balance at July 31, 2019	1	11,074,700	289,183	25,297,096	36,660,980

See accompanying notes to financial statements.

PHOEBE PUTNEY INDEMNITY, LTD.

Statements of Cash Flows

For the period from November 14, 2018 (date of incorporation) to July 31, 2019
(stated in United States dollars)

	2019
Cash provided by/(applied in):	
Operating activities	
Net income for period	1,639,330
Add/(deduct): Net changes in operating assets and liabilities:	
Premium receivable	12,737,793
Due from reinsurer	(2,437,500)
Reinsurance recoverable	1,454,661
Prepaid expenses	5,610
Interest receivable	(28)
Unearned premium received	1,547,420
Deferred acquisition cost	25,476
Losses payable	3,576,650
Ceded premiums payable	(21,899)
Unearned premium	(6,368,897)
Accounts payable and accrued liabilities	5,313
Provision for outstanding claims	193,495
	<hr/> 12,357,424
Investing activities	
Due from broker	11,487,229
	<hr/> 11,487,229
Financing activities	
Capital contribution	100,000
Increase in cash from merger of PPI, LLC	56,123,105
	<hr/> 56,223,105
Increase in cash and cash equivalents during period	80,067,758
Cash and cash equivalents at beginning of year	0
Cash and cash equivalents at end of period	US\$ 80,067,758

See accompanying notes to financial statements.

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements

July 31, 2019

(stated in United States dollars)

1. Incorporation and background information

Phoebe Putney Indemnity, Ltd. (“the Company”) was incorporated on November 14, 2018, as an exempted company under the Companies Law of the Cayman Islands and holds a Class “B(i)” Insurer’s Licence under Section 4(3)(b) of the Cayman Islands Insurance Law 2010. The Company is a wholly-owned subsidiary of Phoebe Putney Health System (“the Parent”), a not-for-profit corporation, organized under Section 501(c)(3) of the Internal Revenue Code. The Company provides general liability, professional liability, personal injury liability, advertising injury liability, contractual liability and auto physical damage coverage to the Parent.

With effect from January 31, 2019, the Company merged with Phoebe Putney Indemnity, LLC (“PPI LLC”) with the Company remaining as the surviving entity. PPI LLC was organized on August 1, 2006 as a single parent captive under the captive insurance laws of the state of South Carolina to insure the risks of the Parent in Southwest Georgia. Upon merger, the rights, the property of every description including choses in action, and the business, undertaking, goodwill, benefits, immunities, powers and privileges of PPI LLC immediately vested to the Company. The Company continued the business of PPI LLC to provide insurance coverage to the Parent.

The Company issues a claims-made policy covering professional and general liabilities, personal injury, advertising injury liability, and contractual liability of the Parent. The policy has limits of \$5,000,000 per occurrence, with an annual aggregate limit of \$27,000,000.

The Company purchases annual excess of loss reinsurance coverage in order to limit its financial exposure to large claims relating to employed physicians and surgeons. Under the per risk coverage, the reinsurer shall pay up to \$750,000 per loss, per insured, in excess of \$250,000 per loss, per insured. Under the clash coverage, the reinsurer shall pay up to \$750,000 per loss occurrence, in excess of \$250,000 per loss occurrence. The maximum amount recoverable for both of these coverage’s combined shall not exceed 40% of the subject premium or \$6,000,000, whichever is greater. Under the excess of limits coverage, the reinsurer shall pay up to \$4,000,000 per loss, per insured, in excess of \$1,000,000, per loss, per insured. The maximum amount recoverable for this coverage shall not exceed \$8,000,000. The reinsurance treaty provides for adjustable premiums based on ceded losses up to a stated maximum. Such adjustments are recorded in the period when they become known.

The Company issues a policy covering automobile physical damage for the Parent owned vehicles. Under the policy, the limit of liability for the physical damage comprehensive coverage is for the actual cash value or cost of the repair, whichever is less.

2. Summary of significant accounting policies

These financial statements are prepared in accordance with U.S. generally accepted accounting principles and the significant accounting policies adopted by the Company are as follows:

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2019

(stated in United States dollars)

2. Summary of significant accounting policies (continued)

(a) Fair value measurements

The fair value of a financial asset or liability is defined using an “exit price” definition. It is the amount that would be received to sell the asset or the amount that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of fair value hierarchy are described below.

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant inputs not observable in the market. These unobservable inputs reflect the Company’s own assumptions about the inputs market participants would use in pricing the assets or liabilities.

(b) Premium written and reinsurance premiums ceded

Premiums written for prospective insurance are recognised as earned on a pro-rata basis over the risk periods of the policies written and any unearned portion at the balance sheet dates is transferred to unearned premiums. Reinsurance premiums ceded are similarly recognised on a pro-rata basis with any unexpensed portion at the balance sheet dates transferred to deferred reinsurance premiums ceded.

(c) Provision for outstanding claims and reinsurance recoverable

The Company determines its provision for known cases on the basis of the claims reported to it by a claims handler. The Company has engaged the services of independent consulting actuaries to advise on the required level of total outstanding claims and claims adjustment expenses. The provision for outstanding claims and claims adjustment expenses is therefore based upon the advice of these actuaries and management’s best estimate for the ultimate development of claims reported.

Changes in estimates of outstanding claims and claims adjustment expenses resulting from the continuous review process and differences between estimates and payments are recognised in the statements of operations and comprehensive income in the period in which they are determined.

The Company records its estimated liabilities gross of any amounts recoverable under its own reinsurance, which amounts, if any, are recorded separately in the balance sheet. In the event that the Company’s reinsurers are unable to meet their obligations under the reinsurance agreements, the Company would be liable to pay all claims under the reinsurance assumed but would only receive reimbursement to the extent that the reinsurers can meet their obligations.

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2019

(stated in United States dollars)

2. Summary of significant accounting policies (continued)

(d) Investments and net investment income

The Company's investments are considered to be "available for sale" and are recorded in the balance sheets at their fair value with unrealised gains and losses disclosed as a component of accumulated other comprehensive income within shareholder's equity. The cost of investments is amortised over the period for which they are held and unrealised gains and losses are calculated based on cost. Interest and dividends are recognised on the accrual basis of accounting.

Realised gains and losses are included in net investment income in the statement of operations and comprehensive income, with the cost of investments sold determined based on the specific identification method.

For investments classified as available for sale, the Company assesses impairment at the individual security level. An investment is impaired if the fair value of the investment is less than its amortised cost basis. When impairment exists, the Company assesses whether such impairment is temporary or other-than-temporary.

Other than temporary impairments are recognised in the statement of operations and comprehensive income as the difference between the investment's cost or amortised cost basis and its fair value.

(e) Cash and cash equivalents

Cash and cash equivalents consist of a highly liquid money market funds, balances in a current account and cash held at fund manager.

(f) Use of estimates

The preparation of the financial statements in accordance with U.S. 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 at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from these estimates.

3. Cash and cash equivalents

	2019
Money market funds	64,986,912
Current account	12,080,846
Cash held at fund manager (Note 4)	3,000,000
	US\$ 80,067,758

The Company considers the money market funds which are carried at fair value to be a Level 1 asset in the fair value hierarchy.

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2019

(stated in United States dollars)

4. Investments

The cost, unrealised gains and losses, and fair value of investments which are available for sale are as follows:

	Cost	Gross unrealised gain	Gross unrealised loss	Fair value
Morgan Stanley Offshore Emerging Mutual fund	4,099,793	0	(235,950)	3,863,843
Mason Capital Fund	1,864,260	150,233	0	2,014,493
Aetos Capital Multi-Strategy Arbitrage Cayman Fund	4,476,011	127,754	0	4,603,765
Aetos Capital Distressed Investment Strategies Cayman Fund	1,803,311	37,753	0	1,841,064
Aetos Capital Long/Short Strategies Cayman Fund	2,543,104	209,393	0	2,752,497
Total alternative investments funds	US\$ 14,786,479	525,133	(235,950)	15,075,662

The Company invested in the following alternative investment funds as at July 31, 2019 each with a value in excess of 1% of total assets, which use the net asset value (“NAV”) as a practical expedient to measure fair value:

- (a) The Morgan Stanley Offshore Emerging Mutual Fund is registered under the Mutual Funds Law of the Cayman Islands and is regulated by the Cayman Islands Monetary Authority. The investment objective of the fund is long-term capital appreciation primarily by investing in emerging country equity securities. Shares of the Fund may be redeemed at any time by transmitting an irrevocable redemption request. There are no unfunded commitments at year end.
- (b) The Mason Capital investment is registered under the Mutual Funds Law of the Cayman Islands and is regulated by the Cayman Islands Monetary Authority. The investment objective of the fund is to seek maximum capital appreciation primarily by using a variety of investment techniques, including employing three event-driven investment strategies: merger arbitrage, distressed securities, and special situations. Investors must give written notice of 45 days prior to the applicable redemption date in order to redeem some or all of its shares. There are no unfunded commitments at year end.
- (c) The Aetos Capital Multi-Strategy Arbitrage Cayman Fund is intended to be a vehicle by which investors can access a portfolio of high quality arbitrage strategies, investing in both U.S. and non-U.S. securities and instruments, constructed and monitored using dedicated resources and disciplined methodologies. Investors are given the option to liquidate their investment in this fund quarterly and must give 90 days’ notice prior to liquidating. There are no unfunded commitments at year end.

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2019

(stated in United States dollars)

4. Investments (continued)

- (d) The Aetos Capital Distressed Investment Strategies Cayman Fund is intended to be a vehicle by which investors can access a portfolio of high quality distressed investment strategies, constructed and monitored using dedicated resources and disciplined methodologies. Investors are given the option to liquidate their investment in this fund quarterly and must give 90 days' notice prior to liquidating. There are no unfunded commitments at year end.
- (e) The Aetos Capital Long/Short Strategies Cayman Fund is intended to be a vehicle by which investors can access a portfolio of high quality long/short strategies, constructed and monitored using dedicated resources and disciplined methodologies. Investors are given the option to liquidate their investment in this fund quarterly and must give 90 days' notice prior to liquidating. There are no unfunded commitments at year end.

Effective July 25, 2019, the Company made a US\$3,000,000 commitment to Davidson Kempner International (BVI), Ltd. As at July 31, 2019, the commitment was funded and subsequently subscribed on August 1, 2019. As at July 31, 2019, the funds were held by the fund manager and classified under cash and cash equivalents in the balance sheet.

Included in accumulated other comprehensive income is gross accumulated unrealised gains of US\$525,133 and gross accumulated unrealised losses of US\$235,950.

Management has considered the nature of investments in an unrealised loss position, the cause of their impairment, the severity and duration of their impairment and other relevant information available to management and believes that the impairments are temporary in nature. The following table identifies the duration of impairment for the investments with an unrealised loss at July 31, 2019:

2019	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealised loss	Fair value	Gross unrealised loss	Fair value	Gross unrealised loss
Alternative investment funds	0	0	3,863,843	235,950	3,863,843	235,950
US\$	0	0	3,863,843	235,950	3,863,843	235,950

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2019

(stated in United States dollars)

5. Provision for outstanding claims and reinsurance recoverable

	2019
Provision for reported claims	49,329,173
Provision for adverse claims development and incurred but not reported claims	11,547,961
	US\$ 60,877,134

The Company has engaged independent consulting actuaries Willis Towers Watson to advise on the necessary level of outstanding claims and claim adjustment expenses. In their report dated August 23, 2019, the actuaries estimated the Company's net retained liabilities as at July 31, 2019, on an undiscounted basis at a 75% confidence level to be US\$58,005,807. Outstanding liabilities are recorded at a 75% confidence level discounted at 4% for periods ended July 31, 2019 and prospectively and at a 75% confidence level undiscounted for prior periods. The actuaries also estimated the provision in the reinsured layers at July 31, 2019, on an undiscounted basis to be US\$6,108,025. The Company has recorded US\$60,877,134 on a gross basis and US\$54,769,109 on a net basis as its best estimate of outstanding claims and claims adjustment expenses.

Should the Company's reinsurers be unable to reimburse the Company for recoverable losses, then the Company would still be liable to pay the losses, but would only receive reimbursement to the extent possible from the reinsurers.

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2019

(stated in United States dollars)

5. Provision for outstanding claims and reinsurance recoverable (continued)

Movement in the provision for outstanding claims and outstanding claims recoverable is summarised as follows:

	2019
Assumption of liability following merger	60,683,639
Less: reinsurance recoverable following merger	(7,562,686)
	53,120,953
Incurred, net related to:	
Current period	5,455,000
Prior years	(2,188,761)
Tail	345,000
	3,611,239
Paid, net related to:	
Current period	(146,082)
Prior years	(1,817,001)
	(1,963,083)
Net balance at end of period	54,769,109
Add: reinsurance recoverable	6,108,025
Balance at end of period	US\$ 60,877,134

The movement in incurred losses in relation to prior years are as a result of changes in underlying estimates and assumptions inherent in the loss reserving process. Consistent with most companies with similar insurance operations, the Company's provision for claims and claim adjustment expenses is ultimately based on management's reasonable expectations of future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e. within one year) and that the effects of such changes could be material to the financial statements.

Methodology for determining the provision for outstanding claims

The provision for outstanding claims represents management's estimate of the ultimate liability for unpaid losses and loss expenses for claims that have been reported and adverse loss development on those claims ("ALD") as at the balance sheet date. The provision for outstanding losses does not represent an exact calculation of the liability, but instead represents management's best estimate, utilizing actuarial expertise and projection methods that develop estimates for the ultimate cost of losses and loss expenses.

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2019

(stated in United States dollars)

5. Provision for outstanding claims and reinsurance recoverable (continued)

Methodology for determining the provision for outstanding claims (continued)

The establishment of the provision for outstanding claims is an inherently uncertain process involving estimates and judgment, and as such may change in future periods. The Company reflects changes to the provision for outstanding claims in the statements of operations and comprehensive income in the period the estimates are changed.

Cumulative amounts paid and the provision for reported loss at July 31, 2019 are subtracted from the estimate of the ultimate cost of claim and claim adjustment expenses to derive ALD. Accordingly, ALD includes development on known claims and re-opened claims.

The following estimation and analysis methods are principally used by the Company's consulting actuaries to estimate the provision for outstanding claims. These estimation and analysis methods are typically referred to as conventional actuarial methods.

- The expected pure premium/loss ratio method uses a prior measure of anticipated losses based on longer-term trends in loss experience, relative to the Company's exposures or premiums. Actual losses are not considered in this method.
- The Bornhuetter-Ferguson method uses an initial estimate of ultimate losses based on the expected pure premium/loss ratio method and the development patterns from the paid loss and reported loss development methods.

Methodology for determining the number of reported claims

A claim file is created when the Company is notified of an actual demand for payment, notified of an event that may lead to a demand for payment, or when it is determined that a demand for payment could possibly lead to a future demand for payment on another coverage on the same policy or on another policy. Claim files are generally created for a policy at the claimant level, by coverage, depending on the facts and circumstances of the underlying loss event. For the purposes of the loss development tables below, only reported claims with incurred amounts are considered.

The reconciliation of the net incurred and paid claims development tables to the provision for outstanding claims in the balance sheet is as follows:

	2019
Undiscounted provision for outstanding claims, net	58,005,807
Discount	(3,236,698)
Provision for outstanding claims, net	54,769,109
Add: reinsurance recoverable on unpaid claims	6,108,025
Total gross provision for outstanding losses	US\$ 60,877,134

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2019

(stated in United States dollars)

5. Provision for outstanding claims and reinsurance recoverable (continued)

Medical Professional and Patient General Liability

A.	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>		
	Incurred claims and allocated claim adjustment expenses, net of reinsurance											
	Unaudited											
<u>Report/Fiscal</u>											<u>IBNR Reserves</u>	<u>Cumulative</u>
<u>Year</u>											<u>7/31/2019</u>	<u>number of</u>
											<u>7/31/2019</u>	<u>reported claims</u>
2010	13,179,607	16,605,987	13,930,989	9,553,059	9,760,866	10,576,462	10,328,651	10,209,651	10,174,908	10,174,908	\$0	32
2011		16,912,991	7,302,942	5,473,860	6,556,566	6,088,534	5,859,781	5,390,518	5,293,649	5,273,570	0	33
2012			30,658,682	22,954,589	16,257,461	11,645,757	11,199,003	12,230,251	11,800,776	11,800,776	0	34
2013				17,661,883	12,245,544	7,946,640	7,001,059	7,098,017	6,565,706	6,447,220	208,895	44
2014					20,561,932	18,825,498	11,755,117	9,442,468	9,543,534	9,475,756	152,449	31
2015						20,724,532	15,715,046	13,497,868	12,303,341	12,063,646	889,478	26
2016							10,366,891	10,875,846	7,209,596	5,705,909	1,741,105	39
2017								13,229,274	15,830,078	10,777,177	1,237,251	48
2018									12,974,254	18,336,542	625,615	94
2019										12,947,395	(5,117,214)	100
Tail							12,899,600	13,274,450	13,518,400	14,339,500	14,339,500	0
								<i>Total</i>		<u>117,342,399</u>		

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2019

(stated in United States dollars)

5. Provision for outstanding claims and reinsurance recoverable (continued)

Medical Professional and Patient General Liability (continued)

B.	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	
	Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance										
	Unaudited										
<u>Report/Fiscal Year</u>											
2010	60,992	1,466,775	7,197,988	7,670,583	8,962,444	9,372,617	10,174,908	10,174,908	10,174,908	10,174,908	
2011		506,789	1,450,148	1,617,953	4,755,801	5,109,827	5,273,570	5,273,570	5,273,570	5,273,570	
2012			622,673	1,085,865	6,067,166	9,647,113	9,719,447	11,800,776	11,800,776	11,800,776	
2013				162,909	1,754,850	2,671,447	3,768,898	4,699,121	5,973,272	5,970,567	
2014					69,707	4,272,195	6,462,017	6,733,855	8,386,803	8,508,661	
2015						2,243,425	3,470,283	4,523,591	6,207,151	6,656,999	
2016							333,993	1,006,071	2,765,287	2,905,915	
2017								331,718	4,274,066	5,878,278	
2018									746,977	1,980,042	
2019										186,876	
Tail	0	0	0	0	0	0	0	0	0	0	
											Total
											59,336,592
											2010-2019
											Before 2010
											\$0
											Undiscounted Liability for claims and allocated claim adjustment expenses, net of reinsurance
											Total net liability
											\$58,005,807

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
	Average annual percentage payout of incurred claims by age, net of reinsurance									
	Unaudited									
<u>Years</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
	5.18%	18.88%	24.19%	18.68%	9.27%	9.16%	1.96%	0.00%	0.00%	0.00%

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2019

(stated in United States dollars)

6. Share capital and additional paid-in capital

		2019
Authorised:		
50,000 ordinary shares of US\$1.00 each	US\$	50,000
Issued and fully paid		
1 ordinary	US\$	1

The Company is subject to a minimum net worth required as established by the Cayman Islands Monetary Authority (“CIMA”). Under the terms of its license, the Company is required to maintain a minimum statutory net worth in accordance with the Company’s approved business plan with CIMA of US\$100,000. At July 31, 2019, the Company is in compliance with these requirements.

7. Net investment income

		2019
Interest income		752,471
Investment management and custody fees		(55,640)
Realized loss on money market funds		(499)
	US\$	(696,332)

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2019

(stated in United States dollars)

8. Administration expenses

	Note	2019
Software expenses		102,687
Professional fees		97,022
Travel and meeting expenses	10	28,008
Management fees		17,500
Government fees		9,033
Miscellaneous expenses		34,889
	US\$	289,139

9. Taxation

Under the Cayman Islands Tax Concessions Law, the Governor in Cabinet issued an undertaking to the Company exempting it from all local income, profit or capital gains taxes until November 19, 2038. The undertaking has been issued for a period of twenty years and at the present time, no such taxes are levied in the Cayman Islands. Accordingly, no provision for taxes is made in these financial statements.

Management does not consider the Company to be engaged in a United States trade or business and therefore it is not subject to United States income taxes. If the Company should be considered to be engaged in a United States trade or business, it could be subject to federal income tax, Federal alternative minimum tax and branch profits tax.

Management is required to determine whether an income tax position is more likely than not to be sustained upon examination by the applicable taxing authority based on the technical merits of the position. Management has evaluated all income tax positions and does not consider the Company to be engaged in trade or business in any jurisdiction other than the Cayman Islands and therefore is not subject to income taxes. If the Company should be considered to be engaged in a trade or business in a jurisdiction outside of the Cayman Islands, it could be subject to income taxes.

Management does not believe there are any income tax positions taken by the Company that are subject to uncertainty and as a result, no provisions are made in these financial statements.

10. Related party transactions

As outlined in note 1, with the exception of reinsurance contracts entered into with third parties, all insurance business relates to contracts underwritten to the Parent or its affiliates, and therefore all related transactions and balances are with related parties.

Included in general and administration expenses are travel and meeting expenses for directors incurred during the period ended July 31, 2019, amounting to US\$28,008. As at July 31, 2019, no expenses remain payable.

PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2019

(stated in United States dollars)

11. Financial instruments

Fair value

Refer to notes 3 and 4 for disclosures on fair value hierarchy for financial instruments carried at fair value.

In the normal course of business, the Company purchases and sells various financial instruments which may result in both market and credit risks, the amount of which is not apparent from the financial statements.

Market risk

Market risk is the risk that changes in interest rates, foreign exchange rates and equity markets will affect the fair value of positions held by the Company. The Company is exposed to market risk on its money market funds and its investments which are carried at fair value. Specifically, a risk exists that the ultimate selling price of investments or the money market fund may differ from their fair values as at the balance sheet dates. Management does not anticipate any material losses from this exposure. The Company manages this exposure to market risk by appointing a reputable investment manager to monitor its investment positions. In addition, management actively reviews the performance of its investment manager and market values of its investments.

Credit risk

Credit risk is the risk of counterparty default. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for the non-exchange traded financial instrument is not backed by an exchange clearing house. Financial assets which potentially expose the Company to credit risk consist of cash and cash equivalents, investments, interest receivable, receivable from investments, reinsurance recoverable and amounts due from reinsurer. However, since all cash and cash equivalents, investments, receivable from investments and interest receivable are held at or due from reputable financial institutions, management does not anticipate any material losses from these exposures. The Company manages its exposure to credit risk with regards to reinsurance recoverable and amounts due from reinsurer by actively reviewing the insurance ratings of its reinsurers.

A concentration of credit risk exists as all of the cash balances and investments are held with one bank in the Cayman Islands and one bank in the United States. Management does not anticipate any losses as a result of this concentration. The Company's exposure to credit risk is limited to the amounts in the balance sheet.

12. Subsequent events

In preparing these financial statements, management has evaluated subsequent events up to October 7, 2019, which is the date that the financial statements were approved and available to be issued.