

Financial Statements of

**PHOEBE PUTNEY INDEMNITY, LTD.**

July 31, 2020 and 2019

## **PHOEBE PUTNEY INDEMNITY, LTD.**

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### **Independent Auditors' Report to the Directors**

We have audited the accompanying financial statements of Phoebe Putney Indemnity, Ltd. (the "Company"), which comprise the balance sheets as of July 31, 2020 and 2019, and the related statements of operations and comprehensive income, changes in shareholder's equity, and cash flows for the year ended July 31, 2020, and 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 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 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, 2020 and 2019, and the results of its operations and its cash flows for the year ended July 31, 2020, and 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*

Accounting principles generally accepted in the United States of America require that the required supplementary information ("RSI") under Accounting Standards Update 2015-09, *Disclosures 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**

November 2, 2020

## PHOEBE PUTNEY INDEMNITY, LTD.

### Balance Sheets

July 31, 2020 and 2019

(stated in United States dollars)

	Note	2020	2019
<b>Assets</b>			
Cash and cash equivalents	3, 4	10,569,921	80,067,758
Investments	4	81,726,873	15,075,662
Due from broker		0	27,020
Due from reinsurer		3,076,908	2,437,500
Reinsurance recoverable	5	9,228,617	6,108,025
Prepaid expenses		10,508	10,508
Interest receivable		0	28
<b>Total assets</b>	US\$	104,612,827	103,726,501
<b>Liabilities and shareholder's equity</b>			
<b>Liabilities</b>			
Provision for outstanding claims	5	62,427,298	60,877,134
Losses payable		106,629	3,589,349
Ceded premiums payable		3,525,728	2,537,413
Accounts payable and accrued expenses		31,582	61,625
		66,091,237	67,065,521
<b>Shareholder's equity</b>			
Share capital	6	1	1
Additional paid-in capital		11,074,700	11,074,700
Accumulated other comprehensive income		0	289,183
Retained earnings		27,446,889	25,297,096
		38,521,590	36,660,980
<b>Total liabilities and shareholder's equity</b>	US\$	104,612,827	103,726,501

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors on November 2, 2020.

## PHOEBE PUTNEY INDEMNITY, LTD.

### Statements of Operations and Comprehensive Income

For the year ended July 31, 2020 and for the period from November 14, 2018 (date of incorporation) to July 31, 2019

*(stated in United States dollars)*

	Note	2020	2019
<b>Underwriting income</b>			
Premium written		13,919,920	0
Movement in unearned premium		0	6,368,897
Reinsurance premiums ceded		(3,452,766)	21,899
Movement in reinsurance premium		0	(1,547,420)
		10,467,154	4,843,376
<b>Underwriting expenses</b>			
Claims paid	5	13,723,951	4,750,583
Reinsurance recoveries	5	(639,408)	(2,787,500)
Movement in provision for outstanding claims		1,550,164	193,495
Movement in reinsurance recoverable		(3,120,592)	1,454,661
		11,514,115	3,611,239
<b>Net underwriting income</b>		(1,046,961)	1,232,137
Net investment income	7	3,168,434	696,332
Administration expenses	8	(260,863)	(289,139)
<b>Net income for the year and period</b>		1,860,610	1,639,330
<b>Other comprehensive income</b>			
Unrealised gains on investments arising during the period		0	526,525
<b>Comprehensive income for the year and period</b>	US\$	1,860,610	2,165,855

*See accompanying notes to financial statements.*

## PHOEBE PUTNEY INDEMNITY, LTD.

### Statements of Changes in Shareholder's Equity

For the year ended July 31, 2020 and 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
<b>Balance at July 31, 2019</b>	<b>1</b>	<b>11,074,700</b>	<b>289,183</b>	<b>25,297,096</b>	<b>36,660,980</b>
ASU 2016-01 Adjustment	0	0	(289,183)	289,183	0
Net income for the year	0	0	0	1,860,610	1,860,610
<b>Balance at July 31, 2020</b>	<b>1</b>	<b>11,074,700</b>	<b>0</b>	<b>27,446,889</b>	<b>38,521,590</b>

*See accompanying notes to financial statements.*

## PHOEBE PUTNEY INDEMNITY, LTD.

### Statements of Cash Flows

For the year ended July 31, 2020 and for the period from November 14, 2018 (date of incorporation) to July 31, 2019  
(stated in United States dollars)

	2020	2019
<b>Cash provided by/(applied in):</b>		
<b>Operating activities</b>		
Net income for the year and period	1,860,610	1,639,330
Add/(deduct): Items not involving movement of cash:		
Net realized gains on disposal of investments	(866,646)	0
Movement in net unrealized gain on trading investments	(2,114,322)	0
Add/(deduct): Net changes in operating assets and liabilities:		
Premium receivable	0	12,737,793
Due from reinsurer	(639,408)	(2,437,500)
Reinsurance recoverable	(3,120,592)	1,454,661
Prepaid expenses	0	5,610
Interest receivable	28	(28)
Unearned premium received	0	1,547,420
Deferred acquisition cost	0	25,476
Losses payable	(3,482,720)	3,576,650
Ceded premiums payable	988,315	(21,899)
Unearned premium	0	(6,368,897)
Accounts payable and accrued liabilities	(30,043)	5,313
Provision for outstanding claims	1,550,164	193,495
	(5,854,614)	12,357,424
<b>Investing activities</b>		
Purchases of investments	(104,563,436)	0
Proceeds from disposal of investment	40,893,193	0
Due from broker	27,020	11,487,229
	(63,643,223)	11,487,229
<b>Financing activities</b>		
Capital contribution	0	100,000
Increase in cash from merger of PPI, LLC	0	56,123,105
	0	56,223,105
<b>(Decrease)/increase in cash and cash equivalents during the year and period</b>	<b>(69,497,837)</b>	<b>80,067,758</b>
Cash and cash equivalents at beginning of year and period	80,067,758	0
<b>Cash and cash equivalents at end of the year and period</b>	<b>US\$ 10,569,921</b>	<b>80,067,758</b>

See accompanying notes to financial statements.



# PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements

July 31, 2020 and 2019

*(stated in United States dollars)*

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## 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 with a per occurrence limit of \$1,000,000 and an annual aggregate of \$1,000,000 as respects to Medical Incidents, which is excess of a per occurrence limit of \$5,000,000 and an annual aggregate of \$27,000,000 covering professional and general liabilities, personal injury, advertising injury liability, and contractual liability risks of the Parent.

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 300% of the maximum subject premium or \$6,000,000, whichever is greater. Under the excess of limits coverage, the reinsurer shall pay up to \$5,000,000 (2019: \$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 \$10,000,000 (2019: \$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, 2020 and 2019  
(stated in United States dollars)

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### 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, 2020 and 2019

*(stated in United States dollars)*

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### 2. Summary of significant accounting policies (continued)

#### *(d) Investments and net investment income*

Prior to August 1, 2019, investments in equity securities are categorized as “available-for-sale” and reported in the balance sheets at fair value.

The Company records purchases and sales of investments on the trade date. Any unrealised gains or losses on available-for-sale investments, calculated by reference to the cost or amortised cost, as appropriate, are recognised as a component of other comprehensive income on the balance sheets. Where there is a decline in the fair value of an available-for-sale equity investment below cost and the Company does not have the intent and ability to hold the equity investment for a period of time sufficient to allow the anticipated recovery in fair value, the cost is adjusted. If the Company intends to sell a security in an unrealised loss position or it is more likely than not that the amortised cost basis of the security will not be recovered prior to the sale of the security, the cost or amortised cost is adjusted. Any adjustments to cost or amortised cost are recorded in the statements of operations. Realised gains and losses, calculated by reference to the cost or amortised cost of the investment, are recorded in the statements of operations.

The Company evaluates declines in the fair value of its available-for-sale investments below their cost to determine whether they are other than temporary. If the decline in fair value is deemed to be other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is included in the statements of income in investment income.

#### *Recently adopted accounting pronouncement*

In January 2016, the Financial Accounting Standards Board issued Accounting Standard Update 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). The standard is intended to improve the recognition, measurement, presentation and disclosure of financial instruments.

Among other changes, there is no longer an available-for-sale classification, for which changes in fair value are currently reported in other comprehensive income, for equity securities with readily determinable fair values. Equity investments with readily determinable fair values are measured at fair value through net income. ASU 2016-01 was adopted by the Company on August 1, 2019 which required a cumulative-effect adjustment to opening retained earnings to be recorded for equity investments with readily determinable fair values.

As of August 1, 2019, the Company held investments in equity securities with a fair value of US\$15,075,662 and net unrealised gains of US\$289,183. The Company recorded a cumulative-effect adjustment of US\$289,193 to decrease accumulated other comprehensive income with a corresponding increase in retained earnings to reclassify the net unrealised gains, as of August 1, 2019. As a result of the implementation of ASU 2016-01, effective August 1, 2019, changes in unrealised gains and losses on investments in equity securities with readily determinable fair values are recorded in the statements of operations within net investment income and equity investments are presented separately from available-for-sale investments on the balance sheets.

## PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2020 and 2019

*(stated in United States dollars)*

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### 2. Summary of significant accounting policies (continued)

*(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

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	2020	2019
Money market funds	4,560,762	64,986,912
Current account	6,009,159	12,080,846
Cash held at fund manager (Note 4)	0	3,000,000
	US\$ 10,569,921	80,067,758

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## PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2020 and 2019

(stated in United States dollars)

### 4. Investments

The cost, unrealized gains and losses, and fair value of investments which are classified as investments measured at fair value through net income as of July 31, 2020 are as follows:

	Cost	Gross unrealized gain	Gross unrealized loss	Fair value
Morgan Stanley Offshore Emerging Mutual fund	4,099,793	20,039	0	4,119,832
Mason Capital Fund	1,864,260	0	(339,707)	1,524,553
Aetos Capital Multi-Strategy Arbitrage Cayman Fund	4,476,011	278,474	0	4,754,485
Aetos Capital Distressed Investment Strategies Cayman Fund	1,803,311	0	(42,836)	1,760,475
Aetos Capital Long/Short Strategies Cayman Fund	2,543,104	365,974	0	2,909,078
Vanguard Global Stock Market Index Fund	24,591,209	1,102,585	0	25,693,794
Walter Scott Global Equity – NCS Institutional Fund Global Equity Mutual Fund	4,172,573	471,838	0	4,644,411
Davidson Kempner International BVI	3,000,000	39,537	0	3,039,537
Parametric Global Defensive Equity Fund	2,500,000	0	(9,294)	2,490,706
Vanguard U.S. Government Bond Index Fund	16,273,108	234,172	0	16,507,279
Doubleline (Nordea) Total Return Fund	10,000,000	214,521	0	10,214,521
Legg Mason Brandywine Global Fixed Income Fund	4,000,000	68,202		4,068,202
<b>Total alternative investments funds</b>	<b>US\$ 79,323,369</b>	<b>2,795,342</b>	<b>(391,837)</b>	<b>81,726,873</b>

The cost, unrealized gains and losses, and fair value of investments which are available for sale as of July 31, 2019 are as follows:

	Cost	Gross unrealized gain	Gross unrealized 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
<b>Total alternative investments funds</b>	<b>US\$ 14,786,479</b>	<b>525,133</b>	<b>(235,950)</b>	<b>15,075,662</b>

## PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2020 and 2019

*(stated in United States dollars)*

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### 4. Investments (continued)

The Company invested in the following alternative investment funds as at July 31, 2020 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.
- (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.

## PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2020 and 2019

*(stated in United States dollars)*

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### 4. Investments (continued)

- (f) The NCS Institutional Global Equity US\$ Fund's investment manager will be authorized to allocate the assets attributable to the Global Equity US\$ Fund without limitation among geographic regions and individual countries throughout the world based on its analysis of global economic, political and financial conditions; provided no more than 15% of the assets attributable to the Global Equity US\$ Fund may be invested in securities issued by companies located in Emerging Markets Countries. Investors are given the option to redeem on any valuation day upon the delivery of a Redemption notice and must be given before 12 Noon (Irish Time) at least two business days prior to the Valuation Day. There are no unfunded commitments at year end.
- (g) The Davidson Kempner International (BVI), Ltd is a multi-strategy fund with an event driven focus, seeking to exploit situations in which announced or anticipated event create opportunities to invest in securities and other financial instruments at a discount to their exit values. Investors are given the option to liquidate their investment in this fund quarterly and must give 60 days' notice prior to liquidating. There are no unfunded commitments at year end.
- (h) The Parametric Global Defensive Equity Fund is a Sub-Fund of Eaton Vance International (Ireland) Funds plc. The investment objective of the Fund is to provide a defensive equity exposure that is expected to provide favorable risk adjusted performance relative to the MSCI All Country World Index in USD over the long term. Investors may redeem their shares on every Dealing Day or any Business Day. There are no unfunded commitments at year end.
- (i) The Legg Mason Brandywine Global Fixed Income Fund is part of an umbrella fund with segregated liability between funds, established as an open-ended, variable capital investment company incorporated with limited liability under the laws of Ireland. The Fund's investment objective is to maximize total return consisting of income and capital appreciation. Shares of the Fund may be redeemed at any time up to the Valuation Point on each Dealing Day with the Fund's Administrator or with Dealers. There are no unfunded commitments at year end.

## PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2020 and 2019

*(stated in United States dollars)*

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### 4. Investments (continued)

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 2019, the funds were held by the fund manager and classified under cash and cash equivalents in the balance sheet. No such commitment was recorded in 2020.

As at July 31, 2019, included in accumulated other comprehensive income is gross accumulated unrealized gains of US\$525,133 and gross accumulated unrealized losses of US\$235,950.

Management has considered the nature of investments in an unrealized 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 unrealized loss at July 31, 2019.

2019	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized 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

As at July 31, 2020, all investments of the Company are classified as investment measured at fair value through net income.



## PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2020 and 2019

*(stated in United States dollars)*

### 5. Provision for outstanding claims and reinsurance recoverable

	2020	2019
Provision for reported claims	49,013,636	49,329,173
Provision for adverse claims development and incurred but not reported claims	13,413,662	11,547,961
	US\$ 62,427,298	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 27, 2020, the actuaries estimated the Company's net retained liabilities as at July 31, 2020, on an undiscounted basis at a 75% confidence level to be US\$58,036,118 (2019: US\$58,005,807). Outstanding liabilities are recorded at a 75% (2019: 75%) confidence level discounted at 4% (2019: 4%) for periods ended July 31, 2020 and prospectively and at a 75% (2019: 75%) confidence level undiscounted for prior periods. The actuaries also estimated the provision in the reinsured layers at July 31, 2020, on an undiscounted basis to be US\$7,857,141 (2019: US\$6,108,025). The Company has recorded US\$62,427,298 (2019: US\$60,877,134) on a gross basis and US\$54,570,157 (2019: 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, 2020 and 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:

	2020	2019
Assumption of liability following merger	60,877,134	60,683,639
Less: reinsurance recoverable following merger	(6,108,025)	(7,562,686)
	54,769,109	53,120,953
Incurred, net related to:		
Current period	12,310,000	5,455,000
Prior years	(740,885)	(2,188,761)
Tail	(55,000)	345,000
	11,514,115	3,611,239
Paid, net related to:		
Current period	(575,684)	(146,082)
Prior years	(12,508,859)	(1,817,001)
	(13,084,543)	(1,963,083)
Net balance at end of period	53,198,681	54,769,109
Add: reinsurance recoverable	9,228,617	6,108,025
Balance at end of period	US\$ 62,427,298	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, 2020 and 2019

(stated in United States dollars)

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### 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, 2020 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:

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	2020	2019
Undiscounted provision for outstanding claims, net	58,036,118	58,005,807
Discount	(4,837,437)	(3,236,698)
Provision for outstanding claims, net	53,198,681	54,769,109
Add: reinsurance recoverable on unpaid claims	9,228,617	6,108,025
Total gross provision for outstanding losses	US\$ 62,427,298	60,877,134

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**PHOEBE PUTNEY INDEMNITY, LTD.**

Notes to Financial Statements (continued)

July 31, 2020 and 2019  
*(stated in United States dollars)*

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

**Medical Professional and Patient General Liability**

A.	<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>	<u>2020</u>		
	Incurred claims and allocated claim adjustment expenses, net of reinsurance											
	Unaudited											
<u>Report/Fiscal</u> <u>Year</u>											<u>IBNR Reserves</u> <u>7/31/2020</u>	<u>Cumulative</u> <u>number of</u> <u>reported claims</u> <u>7/31/2020</u>
2011	16,912,991									5,273,570	\$0	33
2012		7,302,942								11,800,776	0	34
2013			5,473,860							6,197,668	0	42
2014				17,661,883						10,605,016	296,124	31
2015					12,245,544					11,624,931	417,135	27
2016						18,825,498				5,114,230	922,008	38
2017							20,724,532			10,194,060	1,081,203	47
2018								10,366,891		14,319,231	1,016,638	57
2019									13,229,274	15,106,215	(4,124,559)	102
2020										12,947,393	2,256,022	81
Tail										14,508,591	14,274,326	0
										<i>Total</i>	<u>119,018,614</u>	

**PHOEBE PUTNEY INDEMNITY, LTD.**

Notes to Financial Statements (continued)

July 31, 2020 and 2019  
*(stated in United States dollars)*

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

**Medical Professional and Patient General Liability (continued)**

B.	<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>	<u>2020</u>		
	<b>Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance</b>											
<i>Report/Fiscal Year</i>	<b>Unaudited</b>											
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	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	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	5,970,567	6,197,668	
2014				69,707	4,272,195	6,462,017	6,733,855	8,386,803	8,508,661	10,308,892	10,308,892	
2015					2,243,425	3,470,283	4,523,591	6,207,151	6,656,999	10,564,709	10,564,709	
2016						333,993	1,006,071	2,765,287	2,905,915	3,810,844	3,810,844	
2017							331,718	4,274,066	5,878,278	7,723,838	7,723,838	
2018								746,977	1,980,040	2,963,990	2,963,990	
2019									186,876	1,762,525	1,762,525	
2020										575,684	575,684	
Tail	0	0	0	0	0	0	0	0	0	0	0	
									<i>Total</i>			
											60,982,496	
												2011-2020
												\$58,036,118
												Before 2011
												\$0
												<b>Total net liability</b>
												<u>\$58,036,118</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>	<u>2020</u>									
	<b>Average annual percentage payout of incurred claims by age, net of reinsurance</b>																		
<i>Years</i>	<b>Unaudited</b>																		
<u>1</u>	5.77%	<u>2</u>	18.73%	<u>3</u>	18.36%	<u>4</u>	20.78%	<u>5</u>	9.91%	<u>6</u>	15.21%	<u>7</u>	4.23%	<u>8</u>	1.22%	<u>9</u>	0.00%	<u>10</u>	0.00%

## PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2020 and 2019

(stated in United States dollars)

### 6. Share capital and additional paid-in capital

		2020	2019
Authorised:			
50,000 ordinary shares of US\$1.00 each	US\$	50,000	50,000
Issued and fully paid			
1 ordinary	US\$	1	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, 2020 and 2019, the Company is in compliance with these requirements.

### 7. Net investment income

		2020	2019
Interest income		306,865	752,471
Investment management and custody fees		(119,399)	(55,640)
Movement in unrealized gains on investments		2,114,322	0
Realized loss on money market funds		866,646	(499)
	US\$	3,168,434	(696,332)

### 8. Administration expenses

	Note	2020	2019
Software expenses		17,723	102,687
Professional fees		155,645	97,022
Travel and meeting expenses	10	37,936	28,008
Management fees		35,000	17,500
Government fees		12,624	9,033
Miscellaneous expenses		1,935	34,889
	US\$	260,863	289,139

## **PHOEBE PUTNEY INDEMNITY, LTD.**

Notes to Financial Statements (continued)

July 31, 2020 and 2019

*(stated in United States dollars)*

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### **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, 2020, amounting to US\$34,568 (2019: US\$28,008). As at July 31, 2020 and 2019, no expenses remain payable.

## PHOEBE PUTNEY INDEMNITY, LTD.

Notes to Financial Statements (continued)

July 31, 2020 and 2019

(stated in United States dollars)

### 11. Financial instruments

#### *Fair value*

At July 31, 2020 and 2019 the following methods and assumptions were used by management to estimate the fair value of each class of financial instruments:

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

The carrying amount approximates fair value. The company considers its cash and cash equivalents to be Level 1 assets in the fair value hierarchy.

#### *(b) Due from reinsurer, due from broker, interest receivable, ceded premiums payable, accounts payable and accrued expenses*

The above items are substantially short term, and do not bear interest. As such, their carrying amount approximates their fair value.

#### *(c) Provision for outstanding losses and outstanding losses recoverable*

As noted in note 2(c), the provisions for outstanding losses and outstanding losses recoverable are based upon management's best estimate and rely upon the advice of risk managers and independent consulting actuaries. Due to the uncertainty surrounding these provisions, it is not practicable to estimate the final amount and dates of settlement of these losses with sufficient accuracy, which would be necessary in order to determine a reliable fair value for the provisions.

#### *(d) Investments*

The following tables present the financial instruments measured at fair value on a recurring basis carried on the balance sheets by caption and by level within the valuation hierarchy as at July 31, 2020:

Fair Value Measurements at Reporting Date Using					
	Level 1	Level 2	Level 3	07/31/2020	
Alternative investment funds with readily determinable fair value	0	52,415,595	0	52,415,595	
Alternative investment funds measured using NAV as a practical expedient to fair value				29,311,278	
Total assets	US\$	0	52,415,595	0	81,726,873

As of July 31, 2019, all investments held by the Company were measured using NAV as a practical expedient to fair value.



## **PHOEBE PUTNEY INDEMNITY, LTD.**

Notes to Financial Statements (continued)

July 31, 2020 and 2019

*(stated in United States dollars)*

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### **11. Financial instruments (continued)**

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, due from broker, reinsurance recoverable and amounts due from reinsurer. However, since all cash and cash equivalents, investments, due from broker 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 November 2, 2020, which is the date that the financial statements were approved and available to be issued.