

Fides Insurance Group, Inc. and Subsidiary

Audited Consolidated Financial Statements with Supplementary Information and Required Supplementary Information

*Years ended June 30, 2021 and 2020
with Report of Independent Auditors*

Fides Insurance Group, Inc. and Subsidiary

Audited Consolidated Financial Statements
with Supplementary Information
and Required Supplementary Information

Years ended June 30, 2021 and 2020

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Report of Independent Auditors

Board of Directors
Fides Insurance Group, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Fides Insurance Group, Inc. and Subsidiary (Fides) which comprise the consolidated balance sheets as of June 30, 2021 and 2020 and the related consolidated statements of operations, changes in member's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Fides' preparation and fair presentation of the consolidated 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 Fides' internal control over financial reporting. 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fides Insurance Group, Inc. and Subsidiary as of June 30, 2021 and 2020, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of operations on pages 21 - 24 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the disclosures about short-duration insurance contracts including the Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Subrogation and the Average Annual Percentage Payout of Incurred Claims by Age on pages 26 - 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.



Burlington, Vermont

November 30, 2021

Vermont Firm Registration 092-0000267

Fides Insurance Group, Inc. and Subsidiary

Consolidated Balance Sheets

	As of June 30,	
	2021	2020
Assets		
Cash	\$ 6,386,723	\$ 4,170,214
Investments, at fair value	8,066,706	6,450,109
Premiums receivable	591,917	555,750
Accounts receivable	113,880	290,750
Due from RCAB	11,350	85,564
Recoveries receivable - paid losses	-	24,741
Prepaid losses	139,956	-
Prepaid expenses	20,094	-
Separate account assets - Springfield	774,933	-
Total Assets	\$ 16,105,559	\$ 11,577,128
Liabilities and Member's Equity		
Liabilities:		
Losses and loss adjustment expenses, net of subrogation	\$ 4,653,743	\$ 4,134,749
Losses payable	-	104,941
Deferred consulting income	110,301	118,250
PPP Loan payable	-	94,000
Accounts payable and accrued expenses	140,685	161,495
Separate account liabilities and equity - Springfield	774,933	-
Total Liabilities	5,679,662	4,613,435
Member's Equity:		
Contributed capital	632,914	632,914
Retained earnings	9,792,983	6,330,779
Total Member's Equity	10,425,897	6,963,693
Total Liabilities and Member's Equity	\$ 16,105,559	\$ 11,577,128

See accompanying notes to the consolidated financial statements.

Fides Insurance Group, Inc. and Subsidiary

Consolidated Statements of Operations

	Years ended June 30,	
	2021	2020
Revenues		
Premiums written and earned	\$ 7,103,000	\$ 6,669,000
Net investment gains	116,597	295,783
Consulting income	352,949	543,183
Gain on loan extinguishment	94,000	-
Total Revenues	7,666,546	7,507,966
Expenses		
Losses and loss adjustment expenses, net of subrogation	3,173,138	3,084,334
Policy acquisition costs	26,991	25,342
Personnel expenses	538,740	532,108
Consulting expenses	137,839	241,814
General and administrative expenses	327,634	235,378
Total Expenses	4,204,342	4,118,976
Net Income	\$ 3,462,204	\$ 3,388,990

See accompanying notes to the consolidated financial statements.

Fides Insurance Group, Inc. and Subsidiary

Consolidated Statements of Changes in Member's Equity

Years ended June 30, 2021 and 2020

	<u>Contributed Capital</u>	<u>Retained Earnings</u>	<u>Total Member's Equity</u>
Balance at July 1, 2019	\$ 2,293,000	\$ 2,941,789	\$ 5,234,789
Return of capital	(1,660,086)	-	(1,660,086)
Net income	<u>-</u>	<u>3,388,990</u>	<u>3,388,990</u>
Balance at June 30, 2020	632,914	6,330,779	6,963,693
Net income	<u>-</u>	<u>3,462,204</u>	<u>3,462,204</u>
Balance at June 30, 2021	<u>\$ 632,914</u>	<u>\$ 9,792,983</u>	<u>\$ 10,425,897</u>

See accompanying notes to the consolidated financial statements.

Fides Insurance Group, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	Years ended June 30,	
	2021	2020
Cash Flows from Operating Activities		
Net income	\$ 3,462,204	\$ 3,388,990
Add (deduct) items not affecting cash:		
Net investment gains	(116,597)	(295,783)
Gain on loan extinguishment	(94,000)	-
Changes in assets and liabilities:		
Premiums receivable	(36,167)	(555,750)
Accounts receivable	176,870	(167,060)
Due from RCAB	74,214	(33,660)
Recoveries receivable - paid losses	24,741	(7,475)
Prepaid losses/losses payable	(244,897)	80,961
Prepaid expenses	(20,094)	-
Losses and loss adjustment expenses, net of subrogation	518,994	908,160
Deferred consulting income	(7,949)	(5,440)
Accounts payable and accrued expenses	(20,810)	12,250
Net cash provided by operating activities	3,716,509	3,325,193
Cash Flows from Investing Activities		
Cost of investments purchased	(1,698,000)	(3,000,000)
Proceeds from sales of investments	198,000	-
Net cash used in investing activities	(1,500,000)	(3,000,000)
Cash Flows from Financing Activities		
Return of capital to RCAB	-	(1,200,000)
PPP Loan proceeds	-	94,000
Net cash used in financing activities	-	(1,106,000)
Net change in cash	2,216,509	(780,807)
Cash, beginning of year	4,170,214	4,951,021
Cash, end of year	\$ 6,386,723	\$ 4,170,214
Supplemental Schedule of Noncash Investing and Financing Activities		
Noncash return of capital	\$ -	\$ (460,086)
Gain on loan extinguishment	\$ 94,000	\$ -

See accompanying notes to the consolidated financial statements.

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements

Years ended June 30, 2021 and 2020

Note A - Nature of Operations and Significant Accounting Policies

Organization:

Fides Insurance Group, Inc. (Fides) was incorporated under the laws of the State of Vermont on June 4, 2014, and was issued a Certificate of Authority on June 26, 2014, permitting it to transact business as a captive insurance company. As of June 30, 2021 and 2020, Fides had one member, the Roman Catholic Archbishop of Boston, a corporation sole (RCAB).

On December 16, 2016, Fides formed a wholly owned subsidiary, Ratio Risk Services, LLC (Ratio Risk) located in the Commonwealth of Massachusetts. Ratio Risk provides risk management, training and administrative services to Fides, RCAB and other Catholic and non-Catholic entities and institutions.

Effective July 1, 2020, following approval from the State of Vermont, the Roman Catholic Diocese of Springfield, a corporation sole (Springfield) became an insured of Fides. Springfield's program was formed as a separate account under Vermont state statutes 8 V.S.A. 6006(q). Fides is not the primary beneficiary of the separate account and is not entitled to the residual profits or assets of the separate account nor required to absorb losses of the separate account. As such, the separate account is accounted for separately on the books and records of Fides to reflect the financial condition and results of operations; therefore, Springfield's activities have been segregated, are separately reported on the consolidated balance sheet and are more fully disclosed in Note E.

Basis of Reporting:

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards codification (the guidance). The consolidated financial statements include the accounts of Fides and Ratio Risk (collectively referred to hereafter as Fides). All significant intercompany accounts and transactions have been eliminated in consolidation. Preparation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The COVID-19 Pandemic:

The ongoing COVID-19 pandemic has caused an economic downturn on a global scale, disrupted global supply chains, and created significant uncertainty, volatility and disruption across economies and financial markets and remains a rapidly evolving situation. Fides also invests in investments as part of its ongoing operations and is exposed to economic and financial market risks. Events that unfold as part of the pandemic could have a material impact on the future valuation of Fides'

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements (Continued)

Note A - Nature of Operations and Significant Accounting Policies (Continued)

investments. Fides' operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on Fides and its policyholders. As such, COVID-19 could have a material adverse effect on Fides' financial position. The ultimate duration and impact of the COVID-19 outbreak on Fides' financial position cannot be reasonably estimated at this time.

Paycheck Protection Program Loan:

On April 24, 2020, Ratio Risk received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented and federally authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, for an aggregate principal amount of \$94,000 (the PPP Loan). As of June 30, 2021 and 2020, Fides accounted for this PPP loan in accordance with FASB ASC 470, Debt. The PPP loan is a two year loan and is unsecured and guaranteed by the Small Business Administration (SBA). As of June 30, 2020, the PPP Loan was reported as loan payable on the balance sheet and was reported at the outstanding principal balance of the debt. Ratio Risk received forgiveness of the PPP Loan from the SBA on March 30, 2021 and concurrently recorded a gain on loan extinguishment on the consolidated statements of operations for the forgiveness of principal of \$94,000.

Subsequent Events:

Fides has evaluated subsequent events for disclosure and recognition through November 30, 2021, the date these consolidated financial statements were available to be issued, as more fully described in Note F.

Cash:

The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit with each financial institution up to limits as prescribed by law. Fides may hold funds with financial institutions in excess of the FDIC insured limit, however, Fides has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash.

Cash consists of the following at June 30:

	<u>2021</u>	<u>2020</u>
KeyBank Basic Business Checking	\$ 6,095,228	\$ 4,044,097
Citizens Bank Escrow Account	22,014	22,014
KeyBank Escrow Account	<u>269,481</u>	<u>104,103</u>
Total	<u>\$ 6,386,723</u>	<u>\$ 4,170,214</u>

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements (Continued)

Note A - Nature of Operations and Significant Accounting Policies (Continued)

Investments:

During November 2017, Fides acquired shares in the Performa (US) Intermediate Bond Fund (the Bond Fund). The investment objective of the Bond Fund is to invest in the Class A share class of the Performa International Bond Fund to achieve, through individual portfolios, an above average rate of return by investing primarily in fixed income securities. During February 2021, Fides acquired shares in the Performa (US) High Yield Fund (the High Yield Fund). The investment objective of the High Yield Fund is to invest in the Class A share class of the Performa High Yield Fund to achieve, through investing in a diversified portfolio of fixed income securities, an above average rate of return while attempting to limit investment risk. During February 2021, Fides acquired shares in the Performa (US) Equity Fund (the Equity Fund). The investment objective of the Equity Fund is to invest in the Class A share class of the Performa Equity Fund to achieve an above average rate of return through investing in equity securities in different equity markets characterized by company market capitalization, geography. The Bond Fund, the High Yield Fund and the Equity Fund are collectively referred to as "the Funds".

The Funds are carried at fair value with changes in fair value recognized in net income. Net investment gains at June 30, 2021 are comprised of \$117,881 of gains recognized on the Funds still held at year end and \$1,284 of losses recognized on the Funds sold during the year. Net investment gains at June 30, 2020 are comprised entirely of net gains recognized on the Bond Fund still held at year end.

The fair value of the Funds are based on the net asset value (NAV) per share (or its equivalent). Fides is permitted as a practical expedient under GAAP to estimate the fair value for the Funds based on the NAV. There are no restrictions on the Funds and redemptions may be made daily. The Funds have no unfunded commitments.

Consulting Income and Expense:

Ratio Risk provides risk management, training and administrative services to Fides, RCAB and other Catholic and non-Catholic entities and institutions, earning consulting income pursuant to administrative and loss control service contracts. Administrative contracts include performance obligations for executive and administrative management, underwriting services, maintenance of policy data, and claims litigation and management. Revenue from administrative contracts is recognized on a straight-line basis over the course of the contract term and amounted to \$345,000 during the years ended June 30, 2021 and 2020.

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements (Continued)

Note A - Nature of Operations and Significant Accounting Policies (Continued)

Performance obligations for loss control service contracts vary based on the contract and include, but are not limited to, active shooter training, safety workshops and safety audits. Revenue from loss control service contracts is earned at the point in time when services are performed and amounted to \$7,949 and \$198,183 during the years ended June 30, 2021 and 2020, respectively. Consulting income related to services not yet fulfilled are recorded as deferred consulting income.

Ratio Risk contracts with third parties to perform certain services and training on its behalf and records these fees as consulting expenses.

Recognition of Premium Revenue:

Premiums written are earned ratably over the terms of the policies to which they relate. The policies coincide with the fiscal year, therefore there are no unearned premiums recorded at June 30, 2021 and 2020.

Losses and Loss Adjustment Expenses, Net of Subrogation:

The liability for unpaid losses and loss adjustment expenses, net of subrogation, includes case-basis estimates of reported losses plus supplemental amounts for projected incurred but not reported losses (IBNR). IBNR is calculated based upon industry data utilizing the findings of an independent consulting actuary. The principal methods utilized by Fides' actuary are the loss development, Bornhuetter-Ferguson and IBNR-to-case methods. Fides' IBNR reserve is the difference between the projected ultimate losses and the sum of case-basis estimates and inception-to-date paid losses. An estimate of ultimate losses is projected at each reporting date. Management believes that its liability for losses and loss adjustment expenses, net of subrogation, recorded as of June 30, 2021 and 2020, represents its best estimate, based on the available data, of the amount necessary to cover the ultimate cost of losses. However, because of the limited population of insured risks, lack of historical information, impact of COVID-19, economic conditions, judicial decisions, legislation and other matters, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability. Accordingly, the ultimate liability could be significantly in excess of or less than the amount indicated in these consolidated financial statements. As adjustments to this estimate become necessary, such adjustments are reflected in current operations.

Subrogation Recoverable:

As of June 30, 2021 and 2020, Fides recorded an estimated subrogation recoverable of \$100,000 for a property loss incurred on the July 1, 2018/19 policy. The estimated recoverable represents Fides' potential recovery from a third party. The amount recorded by management is their best estimate of the amount recoverable. The ultimate amount recoverable could be in excess of or less than the amount indicated in these consolidated financial statements. As adjustments to this estimate become necessary, such adjustments are reflected in current operations.

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements (Continued)

Note A - Nature of Operations and Significant Accounting Policies (Continued)

Prepaid Losses/Losses Payable:

Prepaid losses represent losses paid in advance by Fides to RCAB. Losses payable represent amounts due to RCAB from Fides.

Federal Income Taxes:

Fides is included in the United States Catholic Conference Group Ruling (Group Ruling) and in the Official Catholic Directory and is therefore exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Fides adopted guidance recognizing the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Fides' management has reviewed the tax positions for open periods and determined that no provision for income tax is required in Fides' financial statements, and that no material federal income tax related interest or penalties have been incurred during the years ended June 30, 2021 and 2020.

Note B - Insurance Activity

Effective July 1, 2014, Fides provides property insurance for the various properties owned by RCAB and other Catholic organizations participating in RCAB's risk management program with a limit of \$500,000 per occurrence, excess of varying deductibles up to \$5,000. Effective July 1, 2015, claims in excess of \$50,000 erode a \$1 million aggregate. Upon erosion of the \$1 million aggregate, Fides' per occurrence limit decreases to \$100,000.

Effective July 1, 2016, Fides began providing coverage on certain policies pursuant to the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA). TRIPRA is a Federal program that requires property and casualty insurers writing direct business in the United States to offer coverage for certified acts of terrorism, as defined by the Secretary of the United States Department of Treasury. Losses incurred under TRIPRA are partially reimbursed by the United States based on a percentage of covered terrorism losses exceeding the statutorily established graduated deductible paid by Fides. Fides is responsible for the graduated deductible and co-insurance under TRIPRA.

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements (Continued)

Note B - Insurance Activity (Continued)

Fides provides the following liability coverages from first dollar to RCAB and other Catholic organizations participating in RCAB's risk management program:

<u>Coverage</u>	<u>Per Occurrence Limit</u>	<u>Policy Aggregate Limit</u>	<u>Effective Date</u>	<u>Retroactive Date</u>
General liability	\$ 250,000	Unlimited	7/1/2016	N/A
Errors & omissions liability*	\$ 250,000	\$ 1,000,000	7/1/2016	3/31/1984
Volunteer attorney errors & omissions liability*	\$ 250,000	\$ 1,000,000	7/1/2016	7/1/2007
Computer-related liability*	\$ 250,000	\$ 1,000,000	7/1/2016	7/1/2007
Nursing home professional liability	\$ 250,000	\$ 1,000,000	7/1/2016	N/A
Automobile liability and automobile physical damage	\$ 25,000 - 250,000	Unlimited	7/1/2017	N/A
Sexual misconduct limited liability*	\$ 250,000	\$ 1,000,000	7/1/2017	1/1/1989
Commercial crime liability	\$ 50,000 - 200,000	Unlimited	7/1/2017	N/A
Cyber liability*	\$ 25,000	Unlimited	7/1/2017	7/1/2017
Boiler & machinery	\$ 10,000	Unlimited	7/1/2018	N/A
Directors' & Officers' legal liability*	\$ 250,000	\$1,000,000 - Unlimited	7/1/2018	1/1/2014

*Denotes claims-made coverage.

Errors & omissions liability coverage pertains to all losses under school board legal liability, employee benefits liability and errors and omissions coverages.

The components of the liability for losses and loss adjustment expenses, net of subrogation, are as follows as of June 30:

	<u>2021</u>	<u>2020</u>
Case-basis reserves	\$ 3,310,740	\$ 2,870,030
IBNR reserves	1,443,003	1,364,719
Less: subrogation recoverable	<u>(100,000)</u>	<u>(100,000)</u>
Total	<u>\$ 4,653,743</u>	<u>\$ 4,134,749</u>

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements (Continued)

Note B - Insurance Activity (Continued)

Losses and loss adjustment expenses activity, net of subrogation, is as follows for the year ended June 30:

	2021	2020
Liability, as of beginning of the year	\$ 4,134,749	\$ 3,226,589
Incurred related to:		
Current year	3,930,315	3,625,000
Development of prior years	(757,177)	(540,666)
Total incurred during the year	3,173,138	3,084,334
Paid related to:		
Current year	(1,472,105)	(1,294,330)
Prior years	(1,182,039)	(881,844)
Total paid during the year	(2,654,144)	(2,176,174)
Liability, as of end of the year	\$ 4,653,743	\$ 4,134,749

As of June 30, 2021, favorable development of prior years is due to lower than expected losses on all coverages for accident years 2017 through 2020, slightly offset by unfavorable development on the 2018 property coverage and the 2016 general liability coverage. As of June 30, 2020, favorable development of prior years is due to lower than expected losses on the 2019 property and general liability accident years.

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements (Continued)

Note B - Insurance Activity (Continued)

The reconciliation of the incurred and paid loss development tables to the liability for losses and loss adjustment expenses, net of subrogation, on the balance sheet as of June 30, 2021 is as follows (in thousands):

Property	\$	1,631
General liability		1,586
Directors' & Officers' legal liability		1,142
Other short-duration insurance lines		<u>295</u>
 Total liability for losses and loss adjustment expenses, net of subrogation	 \$	 <u><u>4,654</u></u>

The following is information about incurred and cumulative paid losses and loss adjustment expenses, net of subrogation, and total IBNR reserves plus expected development on reported claims and the cumulative number of reported claims as of June 30, 2021, by significant category (in thousands, except number of reported claims):

Property:

<u>Accident Year</u>	<u>Incurred</u>	<u>Cumulative Paid</u>	<u>Total IBNR Plus Expected Development on Reported Claims</u>	<u>Cumulative Number of Reported Claims</u>
2015	\$ 3,859	\$ 3,859	\$ -	125
2016	2,070	2,070	-	126
2017	928	928	-	99
2018	2,521	2,519	1	197
2019	3,154	3,236	-	148
2020	1,196	1,106	-	106
2021	<u>2,850</u>	<u>1,229</u>	<u>8</u>	141
 Total	 <u><u>\$ 16,578</u></u>	 <u><u>\$ 14,947</u></u>	 <u><u>\$ 9</u></u>	

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements (Continued)

Note B - Insurance Activity (Continued)

General liability:

<u>Accident Year</u>	<u>Incurred</u>	<u>Cumulative Paid</u>	Total IBNR Plus Expected Development on <u>Reported Claims</u>	Cumulative Number of <u>Reported Claims</u>
2017	\$ 540	\$ 135	\$ 18	19
2018	520	188	35	28
2019	250	134	71	20
2020	525	153	226	18
2021	<u>450</u>	<u>89</u>	<u>273</u>	20
Total	<u>\$ 2,285</u>	<u>\$ 699</u>	<u>\$ 623</u>	

Directors' & Officers' legal liability:

<u>Accident Year</u>	<u>Incurred</u>	<u>Cumulative Paid</u>	Total IBNR Plus Expected Development on <u>Reported Claims</u>	Cumulative Number of <u>Reported Claims</u>
2019	\$ 800	\$ 460	\$ 172	14
2020	875	353	247	16
2021	<u>300</u>	<u>20</u>	<u>255</u>	1
Total	<u>\$ 1,975</u>	<u>\$ 833</u>	<u>\$ 674</u>	

Fides determines the number of reported claims by tracking the number of claims at the claimant level, with the exception of catastrophic claims which are grouped by event. Claims that are closed without payment are not counted.

Note C - Related Party Transactions

Several officers and directors of Fides are employees of RCAB or Ratio Risk.

An allocation of personnel expenses for certain employees of RCAB is made to Ratio Risk based on an estimate of time incurred.

Certain finance, investment management, information technology, risk management, Chancellor, human resources, parish, general counsel and pastoral center services are provided by RCAB pursuant to a management agreement. Expenses related to this agreement are \$19,332 and \$28,908 for the years ending June 30, 2021 and 2020, respectively, and are included as a component of consulting expenses on the consolidated statements of operations.

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements (Continued)

Note C - Related Party Transactions (Continued)

Policy administration, accounting, regulatory compliance, records retention and related services are provided by Strategic Risk Solutions (Vermont), LTD. pursuant to a management agreement.

Note D - Member's Equity

In accordance with the laws of the State of Vermont, for the purpose of submitting its consolidated financial statements to the Vermont Department of Financial Regulation (the Department) for regulatory purposes, Fides is required to use GAAP with the exception of variances prescribed by Vermont laws and regulations or permitted by the Department. Pursuant to laws of the State of Vermont, Fides is required to maintain minimal capital and surplus (member's equity) of \$250,000. As of June 30, 2021 and 2020, member's equity totaled \$10,425,897 and \$6,963,693, respectively.

Vermont law provides that no dividends or other distributions with respect to capital and surplus shall be paid to members without prior approval of the Insurance Commissioner of the Department. During the year ended June 30, 2020, Fides returned \$1,660,086 of capital to RCAB. The total distribution consisted of \$1,200,000 paid in cash, and a \$460,086 noncash capital return for the forgiveness of prepaid losses due from RCAB. Fides received approval from the Insurance Commissioner of the Department for these capital returns. No dividends or other distributions were declared or paid during the year ended June 30, 2021.

There are no differences between net income and member's equity as reported in the 2021 and 2020 Vermont Captive Insurance Annual Reports and the corresponding amounts reported herein, other than rounding and the elimination of intercompany accounts receivable and payable of \$157,500 between Fides and Ratio Risk.

Note E - Separate Account Assets and Liabilities and Equity

A summary of the segregated assets and segregated liabilities and equity of the Springfield separate account at June 30, 2021 is as follows:

Cash	\$ 774,933
Total Assets	<u>\$ 774,933</u>
Losses and loss adjustment expenses	\$ 121,484
Losses payable	29,694
Accounts payable and accrued expenses	10,694
Retained earnings	<u>613,061</u>
Total Liabilities and Equity	<u>\$ 774,933</u>

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements (Continued)

Note E - Separate Account Assets and Liabilities and Equity (Continued)

The revenues and expenses of Springfield for the year ended June 30, 2021 are as follows:

Premium written and earned	\$	942,000
Losses and loss adjustment expenses		(318,245)
General and administrative expenses		<u>(10,694)</u>
Net income	\$	<u>613,061</u>

Significant accounting policies and insurance activity relating to Springfield are as follows:

Recognition of Premium Revenues:

Premiums written are earned ratably over the terms of the policies to which they relate. Springfield's policies coincide with the fiscal year, therefore, there are no unearned premiums recorded at June 30, 2021.

Losses and Loss Adjustment Expenses:

The liability for unpaid losses and loss adjustment expenses includes case-basis estimates of reported losses plus supplemental amounts for projected IBNR. IBNR is calculated based upon industry data utilizing the findings of an independent consulting actuary. The principal methods utilized by the actuary are the loss development, Bornhuetter-Ferguson and IBNR-to-case methods. Springfield's IBNR reserve is the difference between the projected ultimate losses and the sum of case-basis estimates and inception-to-date paid losses. An estimate of ultimate losses is projected at each reporting date. Management believes that its liability for losses and loss adjustment expenses recorded as of June 30, 2021 represents its best estimate, based on the available data, of the amount necessary to cover the ultimate cost of losses. However, because of the limited population of insured risks, lack of historical information, impact of COVID-19, economic conditions, judicial decisions, legislation and other matters, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability. Accordingly, the ultimate liability could be significantly in excess of or less than the amount indicated in these consolidated financial statements. As adjustments to this estimate become necessary, such adjustments are reflected in current operations.

Cash:

The FDIC insures amounts on deposit with each financial institution up to limits as prescribed by law. Springfield may hold funds with financial institutions in excess of the FDIC insured amount, however, Springfield has not experienced losses in such accounts and management believes it is not exposed to any significant credit risk on cash. As of June 30, 2021, cash consists of a checking account with KeyBank.

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements (Continued)

Note E - Separate Account Assets and Liabilities and Equity (Continued)

Federal Income Taxes:

Management determined that Fides' Group Ruling extends to Springfield for the year ended June 30, 2021. Management has reviewed the tax positions for open periods and determined that no provision for income tax is required for Springfield, and that no material federal income tax related interest or penalties have been incurred during the year ended June 30, 2021.

Insurance Activity:

Effective July 1, 2020, Fides provides property insurance for the various properties owned by Springfield with a limit of \$500,000 per occurrence, excess of varying deductibles up to \$2,000. Claims in excess of \$50,000 erode a \$1 million aggregate. Upon erosion of the \$1 million aggregate, Springfield's per occurrence limit decreases to \$100,000.

Effective July 1, 2020, Fides began providing coverage to Springfield on certain policies pursuant to TRIPRA. Losses incurred under TRIPRA are partially reimbursed by the United States based on a percentage of covered terrorism losses exceeding the statutorily established graduated deductible paid by Springfield. Springfield is responsible for the graduated deductible and co-insurance under TRIPRA.

Fides provides the following liability coverages from first dollar to Springfield:

<u>Coverage</u>	<u>Per Occurrence Limit</u>	<u>Policy Aggregate Limit</u>	<u>Effective Date</u>	<u>Retroactive Date</u>
General liability	\$ 250,000	Unlimited	7/1/2020	N/A
Errors & omissions liability*	\$ 250,000	\$ 1,000,000	7/1/2020	10/17/1989
Volunteer attorney errors & omissions liability*	\$ 250,000	\$ 1,000,000	7/1/2020	7/1/2007
Computer-related liability*	\$ 250,000	\$ 1,000,000	7/1/2020	7/1/2007
Nursing home professional liability	\$ 250,000	\$ 1,000,000	7/1/2020	N/A
Automobile liability and automobile physical damage	\$ 250,000	Unlimited	7/1/2020	N/A
Sexual misconduct limited liability*	\$ 250,000	\$ 1,000,000	7/1/2020	10/17/1993
Commercial crime liability	\$ 75,000 - 200,000	Unlimited	7/1/2020	N/A
Cyber liability*	\$ 25,000	Unlimited	7/1/2020	7/1/2017
Boiler & machinery	\$ 10,000	Unlimited	7/1/2020	N/A
Directors' & Officers' legal liability*	\$ 250,000	Unlimited	7/1/2020	10/17/1989

*Denotes claims-made coverage.

Fides Insurance Group, Inc. and Subsidiary

Notes to the Consolidated Financial Statements (Continued)

Note E - Separate Account Assets and Liabilities and Equity (Continued)

Errors & omissions liability coverage pertains to all losses under school board legal liability, employee benefits liability and errors and omissions coverages.

The components of Springfield's liability for losses and loss adjustment expenses on insurance contracts as of June 30, 2021 are as follows:

Case-basis reserves	\$	99,020
IBNR reserves		<u>22,464</u>
Total	\$	<u>121,484</u>

Springfield's incurred losses and loss adjustment expenses include paid losses and loss adjustment expenses of \$196,761 for the year ending June 30, 2021.

Note F - Subsequent Events

Effective July 1, 2021, following approval from the Board of Directors and the Insurance Commissioner of the Department, Fides is converted to a sponsored captive insurance company with a general account and two initial protected cells.

All assets, liabilities and member's equity of Fides' current business were assumed by Cell 1, with RCAB as the sole member and participant. RCAB is the sponsor of the general account, and \$100,000 of core capital transferred from Cell 1 to the general account at the conversion. Cell 1 is unincorporated and maintains the current Group Ruling for Fides. Fides also continues as the sole member of Ratio Risk.

All assets, liabilities and member's equity of Springfield's separate account were assumed by Cell 2, with the Roman Catholic Diocese of Springfield as the sole member and participant. Cell 2 is incorporated as a Vermont nonprofit corporation named RCB Springfield Mass Incorporated Cell. Cell 2 obtained its own employer identification number and is included in the Group Ruling and in the Official Catholic Directory maintaining its tax exempt status under Section 501(c)(3) of the Internal Revenue Code.

Cell 1 and Cell 2 have separate Boards of Directors at the time of conversion.

Supplementary Information

Fides Insurance Group, Inc. and Subsidiary

Consolidating Balance Sheet

As of June 30, 2021

	Fides	Ratio Risk	Eliminating Entries	Total
Assets				
Cash	\$ 5,192,828	\$ 1,193,895	\$ -	\$ 6,386,723
Investments, at fair value	8,066,706	-	-	8,066,706
Premiums receivable	591,917			591,917
Accounts receivable	3,580	267,800	(157,500)	113,880
Due from RCAB	-	11,350	-	11,350
Prepaid losses	139,956	-	-	139,956
Prepaid expenses	18,199	1,895	-	20,094
Segregated assets - Springfield	774,933	-	-	774,933
Total Assets	\$ 14,788,119	\$ 1,474,940	\$ (157,500)	\$ 16,105,559
Liabilities and Member's Equity				
Liabilities				
Losses and loss adjustment expenses, net of subrogation	\$ 4,653,743	\$ -	\$ -	\$ 4,653,743
Deferred consulting income	-	110,301	-	110,301
Accounts payable and accrued expenses	245,750	52,435	(157,500)	140,685
Segregated liabilities and equity - Springfield	774,933	-	-	774,933
Total Liabilities	5,674,426	162,736	(157,500)	5,679,662
Member's Equity				
Contributed capital	632,914	50,000	(50,000)	632,914
Retained earnings	8,480,779	1,262,204	50,000	9,792,983
Total Member's Equity	9,113,693	1,312,204	-	10,425,897
Total Liabilities and Member's Equity	\$ 14,788,119	\$ 1,474,940	\$ (157,500)	\$ 16,105,559

Fides Insurance Group, Inc. and Subsidiary

Consolidating Balance Sheet

As of June 30, 2020

	Fides	Ratio Risk	Eliminating Entries	Total
Assets				
Cash	\$ 3,466,815	\$ 703,399	\$ -	\$ 4,170,214
Investments, at fair value	6,450,109	-	-	6,450,109
Premium receivable	555,750		-	555,750
Accounts receivable	-	448,250	(157,500)	290,750
Due from RCAB	76,246	9,318	-	85,564
Recoveries receivable- paid losses	24,741	-	-	24,741
Total Assets	<u>\$ 10,573,661</u>	<u>\$ 1,160,967</u>	<u>\$ (157,500)</u>	<u>\$ 11,577,128</u>
Liabilities and Member's Equity				
Liabilities				
Losses and loss adjustment expenses, net of subrogation	\$ 4,134,749	\$ -	\$ -	\$ 4,134,749
Losses payable	104,941	-	-	104,941
Deferred consulting income	-	118,250	-	118,250
PPP loan payable	-	94,000	-	94,000
Accounts payable and accrued expenses	271,161	47,834	(157,500)	161,495
Total Liabilities	4,510,851	260,084	(157,500)	4,613,435
Member's Equity				
Contributed Capital	632,914	50,000	(50,000)	632,914
Retained earnings	5,429,896	850,883	50,000	6,330,779
Total Member's Equity	6,062,810	900,883	-	6,963,693
Total Liabilities and Member's Equity	<u>\$ 10,573,661</u>	<u>\$ 1,160,967</u>	<u>\$ (157,500)</u>	<u>\$ 11,577,128</u>

Fides Insurance Group, Inc. and Subsidiary

Consolidating Statement of Operations

For the year ended June 30, 2021

	Fides	Ratio Risk	Eliminating Entries	Total
Revenues				
Premiums written and earned	\$ 7,103,000	\$ -	\$ -	\$ 7,103,000
Net investment gains	116,597	-	-	116,597
Consulting income	-	982,949	(630,000)	352,949
Gain on loan extinguishment	-	94,000	-	94,000
	<u>7,219,597</u>	<u>1,076,949</u>	<u>(630,000)</u>	<u>7,666,546</u>
Expenses				
Losses and loss adjustment expenses, net of subrogation	3,173,138	-	-	3,173,138
Policy acquisition costs	26,991	-	-	26,991
Personnel expenses	-	538,740	-	538,740
Consulting expenses	649,332	118,507	(630,000)	137,839
General and administrative expenses	319,253	8,381	-	327,634
	<u>4,168,714</u>	<u>665,628</u>	<u>(630,000)</u>	<u>4,204,342</u>
Total Expenses	<u>4,168,714</u>	<u>665,628</u>	<u>(630,000)</u>	<u>4,204,342</u>
Net Income	<u>\$ 3,050,883</u>	<u>\$ 411,321</u>	<u>\$ -</u>	<u>\$ 3,462,204</u>

Fides Insurance Group, Inc. and Subsidiary

Consolidating Statement of Operations

For the year ended June 30, 2020

	<u>Fides</u>	<u>Ratio Risk</u>	<u>Eliminating Entries</u>	<u>Total</u>
Revenues				
Premiums written and earned	\$ 6,669,000	\$ -	\$ -	\$ 6,669,000
Net investment gains	295,783	-	-	295,783
Consulting income	<u>-</u>	<u>1,173,183</u>	<u>(630,000)</u>	<u>543,183</u>
Total Revenues	<u>6,964,783</u>	<u>1,173,183</u>	<u>(630,000)</u>	<u>7,507,966</u>
Expenses				
Losses and loss adjustment expenses, net of subrogation	3,084,334	-	-	3,084,334
Policy acquisition costs	25,342	-	-	25,342
Personnel expenses	-	532,108	-	532,108
Consulting expenses	658,908	212,906	(630,000)	241,814
General and administrative expenses	<u>227,749</u>	<u>7,629</u>	<u>-</u>	<u>235,378</u>
Total Expenses	<u>3,996,333</u>	<u>752,643</u>	<u>(630,000)</u>	<u>4,118,976</u>
Net Income	<u>\$ 2,968,450</u>	<u>\$ 420,540</u>	<u>\$ -</u>	<u>\$ 3,388,990</u>

Required Supplementary Information

Fides Insurance Group, Inc. and Subsidiary

Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Subrogation (Unaudited)

The following is information about incurred and paid claims development, by significant category, for the years ended June 30 (in thousands):

Property

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Subrogation							
Accident Year	2015	2016	2017	2018	2019	2020	2021
2015	\$ 3,851	\$ 4,051	\$ 4,086	\$ 3,934	\$ 3,859	\$ 3,859	\$ 3,859
2016		2,200	2,034	2,070	2,070	2,070	2,070
2017			1,440	1,000	928	928	928
2018				2,675	2,700	2,625	2,521
2019					3,200	3,161	3,154
2020						1,450	1,196
2021							<u>2,850</u>
Total							<u>16,578</u>

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Subrogation							
Accident Year	2015	2016	2017	2018	2019	2020	2021
2015	\$ 2,723	\$ 3,854	\$ 4,049	\$ 3,858	\$ 3,859	\$ 3,859	\$ 3,859
2016		1,024	1,953	2,070	2,070	2,070	2,070
2017			781	832	928	928	928
2018				1,688	2,473	2,510	2,519
2019					2,644	3,049	3,236
2020						843	1,106
2021							<u>1,229</u>
Total							<u>14,947</u>

Liability for losses and loss adjustment expenses, net of subrogation	<u><u>\$ 1,631</u></u>
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Fides Insurance Group, Inc. and Subsidiary

Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Subrogation (Continued) (Unaudited)

General liability

Accident Year	Incurred Losses and Allocated Loss Adjustment Expenses, Net of Subrogation				
	2017	2018	2019	2020	2021
2017	\$ 550	\$ 210	\$ 480	\$ 380	\$ 540
2018		540	330	480	520
2019			600	375	250
2020				600	525
2021					450
Total					2,285

Accident Year	Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Subrogation				
	2017	2018	2019	2020	2021
2017	\$ 14	\$ 31	\$ 31	\$ 70	\$ 135
2018		40	74	115	188
2019			22	71	134
2020				35	153
2021					89
Total					699

Liability for losses and loss adjustment expenses, net of subrogation	\$ 1,586
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Fides Insurance Group, Inc. and Subsidiary

Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Subrogation (Continued) (Unaudited)

Directors' & Officers' legal liability

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Subrogation			
Accident Year	2019	2020	2021
2019	\$ 1,000	\$ 1,025	\$ 800
2020		925	875
2021			300
Total			1,975

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Subrogation			
Accident Year	2019	2020	2021
2019	\$ 145	\$ 353	\$ 460
2020		154	353
2021			20
Total			833

Liability for losses and loss adjustment expenses, net of subrogation

\$ 1,142

Fides Insurance Group, Inc. and Subsidiary

Average Annual Percentage Payout of Incurred Claims by Age (Unaudited)

The following is the average annual percentage payout of incurred claims by age as of June 30, 2021, by significant category:

		Average Annual Percentage Payout of Incurred Claims by Age						
Years		1	2	3	4	5	6	7
Property		67.0 %	24.3 %	5.7 %	(1.1)%	- %	- %	- %
General liability		9.1 %	12.9 %	11 %	10.6 %	1	N/A	N/A
Directors' & Officers' legal liability		14.1 %	24.4 %	1	N/A	N/A	N/A	N/A