



NORTHERNLIGHT SURETY COMPANY

Annual Report 2022



MANAGEMENT REPORT 2022

Northernlight Surety Company has seen its core business continue to remain steady. Premiums have remained constant with a perspective for growth driven by higher acceptance in various markets and increased demand for surety bonds. In addition, there has been growth in surety bond reinsurance business written, for which the Surety Company continues to act as the underwriting agent on behalf of the Insurance Company. Northernlight Surety Company sees continued opportunities in this area.

Underwriting results for Northernlight Surety Company have exceeded our budgeted projections. Focusing on the application of established underwriting criteria and solid bondholders' collaterals have driven the underwriting results. As a result, the overall paid loss ratio for 2022 has remained at zero. Expectations for 2023 are that the loss ratio will tick somewhat upwards within the margins of our target loss ratio. This is expected outcome from the global economic situation. We are seeing a variety of stress indicators within the global banking sector and many countries are beginning to slow after the COVID stimulus packages have ended. We are seeing many new government backed infrastructure projects being launched. This will have a positive impact on our business.

The conflict in Eastern Europe continues and the enormous economic impact continues to be felt in Europe. We are not certain how that will affect our overall Surety production in Europe for 2023. The conflict in Eastern Europe continues to impact several projects due to the ongoing concern that

the conflict may spill over into other countries. This conflict continues to impact the overall market.

Expense margins have continued to be within the budget forecasts. COVID restrictions have for the most part ended, and we are seeing an uptick in travel which we expect to continue. The organization is planning to visit several clients in person during the 2023 calendar year. The organization continues to operate in a hybrid work environment. In-person meetings have grown and the increase in travel will impact our expense margins in 2023.

The broker network has seen an increase in 2022. The Surety treaty business continues to expand by utilizing the reinsurance license from Northernlight Insurance Company Inc. and we expect this trend to increase in 2023.

Business is now coming from all areas of the globe. Europe represents approximately 27% of the business. Latin America is another 25% of the Company. In addition, 37% of the business is from Africa, and the remaining 11% is from other regions.

Northernlight Surety company continues to underwrite a very wide variety of types of bonds, but with a focus on the traditional construction related bonds and servicing a growing demand for transborder payment bonds, in which we guarantee local financial transactions backed by counter guarantees from strong international parent organizations.

AUDITORS CERTIFICATE



"Put all your works in the hands of God and your projects will be fulfilled" Prov 16:3

CERTIFICATION

NORTHERNLIGHT SURETY COMPANY SRL

1. At the request of the shareholder of NORTHERNLIGHT SURETY COMPANY SRL, I certify that the financial statements attached as of December 31, 2022 of Financial Situation and Comprehensive Result comply, in all significant aspects, with the principles of recognition, measurement and application of the criteria in account balances in accordance with International Financial Reporting Standards (Full IFRS).

Additionally, based on the accounting records I certify:

2. NORTHERNLIGHT SURETY COMPANY SRL as of December 31, 2022 maintains, in the cash and cash equivalents account, the value of USD 109,117,968, which represents 91% of the company's total assets and mainly comprises:
 - a) Short-term Treasury bonds series 100 whose value as of December 31, 2022 was USD 55,000,000;
 - b) "CD Zero Coupon USD" series 1100 whose value as of December 31, 2022 was USD 50,000,000; and,
 - c) "T USD Money Market Fund" whose value as of December 31, 2022 was USD 4,717,968.

This information comes from accounting records and has been confirmed by a balance confirmation letter sent to us by *Therom Financial* dated March 10, 2023. The securities have no restrictions on use.

3. As of December 31, 2022, NORTHERNLIGHT SURETY COMPANY SRL maintains a balance of Cash Held by Third Parties amounting to USD 6,838,388. This information is derived from accounting records and has been confirmed by a balance confirmation letter sent to us by *Northernlight Administrators, LLC* dated March 08, 2023. Securities have no restrictions on use.
4. As of December 31, 2022, NORTHERNLIGHT SURETY COMPANY SRL has a balance of Premium Accounts Receivable amounting to USD 3,957,456. This information comes from accounting records.
5. NORTHERNLIGHT SURETY COMPANY, SRL as of December 31, 2022 presents a liability for USD 6,865,484 made up of: a Loss Reserve account of USD 5,742,914 that has been reviewed with the balance of reserves from the actuarial report dated 7 February 2023; Management expenses payable of USD 645,711; and, Commissions Payable of USD 476,859. This information arises from the accounting records of the company and the annual calculation of the Loss Reserve (when applicable).
6. NORTHERNLIGHT SURETY COMPANY SRL was incorporated in Costa Rica with registration No. 3-102-692520 on February 12, 2015 and its Capital, as of December 31, 2022, amounts to USD 107,000,000. This information arises from the Financial Statements and records Company Accountant.

AUDITORS CERTIFICATE



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7. NORTHERNLIGHT SURETY COMPANY SRL as of December 31, 2022 registered Ordinary Income for USD 4,707,885; Financial Income for USD 1,089,652; and, Total Expenses of USD 3,475,667, which include Operating Expenses of USD 2,905,282 and Other Results for the Change in the Loss Reserve of USD 570,385, resulting in a Net Income of USD 2,321,870. . This information arises from the accounting records of the company and the annual calculation of the Loss Reserve (when applicable).
8. This information is true and can be used by the interested party exclusively for commercial purposes.

Quito, April 5, 2023.

Cordially,



Firmado electrónicamente por:
LUIS GEOVANNY
SANTANDER TORRES

Luis Geovanny Santander
External auditor
RNAE No. 1013

BALANCE SHEET



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Northernlight Surety Company SRL Statement of Financial Position As of December 31, 2022-2021

PERIOD	DEC 31. 2022	DEC 31. 2021
ASSETS		
Cash and Cash Equivalents	109,717,968	109,175,618
Cash Held by Third Parties	6,838,388	5,127,742
Premiums Receivable	3,957,456	4,891,388
TOTAL ASSETS	120,513,812	119,194,748
LIABILITIES		
Current Liabilities		
Commissions Payable	476,859	1,375,481
Management Expenses Payable	645,711	1,320,280
Reserves	5,742,914	5,172,529
TOTAL LIABILITIES	6,865,484	7,868,291
EQUITY		
Paid in Capital	107,000,000	107,000,000
Retained Earnings	4,326,458	3,044,021
Profit for the Current Year	2,321,870	1,282,437
TOTAL EQUITY	113,648,328	111,326,458
TOTAL LIABILITIES AND EQUITY	120,513,812	119,194,748

INCOME STATEMENT



"Put all your works in the hands of God and your projects will be fulfilled" Prov 16:3



Northernlight Surety Company SRL
Statement of income
From January 1 to December 31, 2022 - 2021

PERIOD ENDING	DEC 31. 2022	DEC 31. 2021
ORDINARY INCOME		
Premium Income	4,707,885	3,590,809
TOTAL ORDINARY INCOME	4,707,885	3,590,809
EXPENSES		
Banking and Investment Expenses	547,500	543,585
Broker Commissions Paid	1,301,232	935,828
MGU Fees	1,038,313	827,895
Legal Fees	18,236	
TOTAL EXPENDITURES	2,905,282	2,307,307
FINANCIAL INCOME		
Investment Income	1,089,652	1,091,915
TOTAL FINANCIAL INCOME	1,089,652	1,091,915
OPERATING INCOME	2,892,256	2,375,417
Change in Loss Reserve	570,385	1,092,980
NET PROFIT	2,321,870	1,282,437

FOOTNOTES TO FINANCIALS

01

GENERAL INFORMATION

Northernlight Surety Company S.R.L. (the "Company") is incorporated in Costa Rica under the Business Companies Act, 2004. The liability of the shareholders is limited by shares. The Company maintains its registered office in Costa Rica and its financial records and statements are maintained and presented in U.S. Dollars, rounded to the nearest dollar.

The principal activities of the Company are to issue all forms of surety bonds, financial guarantees underwritten by Northernlights Administration LLC. ("NLA"), a U.S. Corporation. Premiums and losses are accounted for by NLA, then registered to the Company.

The Company contracts for its supervisory, general and administrative and insurance management services with various service providers and professional organizations. As a result, the Company has no employees of its own. The financial statements reflect the costs of these various service providers and professional organizations.

02

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Company's financial statements are set out below.

a) Statement of compliance

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted globally, which are accepted under the International Financial Reporting Standards. Capital requirements are calculated under Solvency II.

b) Estimates

The preparation of financial statement in conformity with the accounting principles generally accepted under International Financial Reporting Standards. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. The disclosure of contingent assets and liabilities at the date of the financial statements against the reported amounts of revenues and expenses during the reporting period could differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Valuation of the reserve for policy losses and loss related expenses

For the Company’s bonds and guarantees, estimates must be made both for the expected outstanding cost of claims reported at the reporting date and for the expected outstanding cost of claims incurred but not yet reported (“IBNR”) at the reporting date. It can take a significant period before the outstanding claims cost can be established with certainty and for some types of policies, IBNR claims form the majority of the liability. The cost of outstanding claims is estimated based on historical management experience in the industry and advice from the ceding company.

The carrying value at the reporting date of the reserve for losses and loss related expenses is USD 5,742,914 for 2022.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

d) Product Classification

Surety contracts are those contracts in which the Company has accepted significant guarantees of the compliance of contractual obligations by another party (the “bondholders”) by agreeing to compensate third parties, the beneficiaries, if a specified uncertain future event (the “default”) adversely affects the beneficiaries. As a general guideline, the Company determines whether it has significant default risk, by considering the bondholders’ capacity, infrastructure and past performance in the execution of contracts similar to the ones guaranteed. Surety Bonds can also guarantee the risk of non-payment of financial obligations. Once a Surety Bond has been classified, it remains a Surety Bond for the remainder of its lifetime, even if the guaranteed values reduce significantly during this period, unless all rights and obligations are extinguished or expire. Surety Bonds require a highly specialized service infrastructure and the involvement of various diverse specialized third-party professional services, which result in substantially higher administration expenses than what we usually see in our other insurance business.

e) Assets

Durational assets are recognized when due and are measured at amortized cost, using the effective interest rate method. The carrying value of durational assets is reviewed for impairment. Whenever events or circumstances indicate that the carrying amount may not be recoverable the impairment loss is recorded in the statement of comprehensive income.

f) Liabilities

Surety Bonds written are triggered when a claim for payment is made. Surety liabilities are recognized when Bonds are entered into, and fees are charged. These liabilities comprise the reserve for Bond claims and claims related expenses.



Reserve for Bond losses and loss related expenses

The reserve for Bond losses and loss related expenses is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, the ultimate cost of which cannot be known with certainty at the reporting date. The liability is calculated at the reporting date based on historical management experience in this industry. Management believes that the reserve for bond losses and loss related expenses is adequate to cover all reported incidents, claims and related expenses. However, because of the length of time required for the ultimate liability for losses and loss expenses to be determined, the net amounts that will ultimately be paid to settle any liability may vary significantly from the estimated amount provided for in the statement of financial position.

Unearned fee income

Unearned fee income includes fees received for guarantees that have not yet expired. Generally, unearned fee income is released over the guarantee period and is recognized as fee income. There was no unearned fee income recognized as of December 31, 2022. At each reporting date, a liability adequacy test is performed to ensure the adequacy of the Bond liabilities. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the reserve for bond losses and loss related expenses.

g) Assets and liabilities

The Company may assume reinsurance of surety bonds in the normal course of business. Premiums and claims on reinsurance assumed are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured bonds. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance. Premiums and claims are presented on a gross basis for assumed reinsurance. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party. Reinsurance assets amounted to zero which recognizes recoverable as of December 31, 2022.

h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Company has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis.



Financial instruments

i) Classification

The Company designated all its investments into the fair value through profit or loss category which comprises financial instruments held for trading. These include investments in listed equities and certificate of deposit. Financial assets that are classified as loans and receivables include due from related parties, insurance assets, reinsurance assets and funds held on account. Financial liabilities that are not at fair value through profit or loss include insurance liabilities, due to related parties and other payables and accrued expenses.

(ii) Recognition

The Company recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

(iii) Measurement

Financial assets and liabilities are measured initially at fair value (transaction price) plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities that are not at fair value through profit or loss are amortized. Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognized in the statement of comprehensive income, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses (refer to accounting policy (m)). If a reliable measure subsequently becomes available, the instrument is measured

at fair value. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest rate method, less impairment losses (refer to accounting policy (m)), if any. Financial liabilities are measured at amortized cost using the effective interest rate method.

(iv) Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the financial asset, and the transfer qualifies for derecognition. The Company uses the specific identification method to determine realized gains and losses on derecognition. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled, expired or surrendered.

(v) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for estimated future selling costs. If a quoted market price is not available on a recognized stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques.

(vi) Specific instruments

Cash and cash equivalents

Cash comprises current deposits with banks and brokers, net of overdrafts. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash. They are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

k) Revenue recognition

Fees written

Fee revenues from the sale of Surety Bonds are recognized in full when received from bondholders.

Fees assumed

Fees assumed are recognized as revenue over the period of bond coverage.

Interest income

Interest income is recognized in the statement of comprehensive income as it accrues, taking into account the effective yield of the asset or an applicable floating rate.

Dividend income

Dividend income relating to exchange traded securities held long is recognized in the statement of comprehensive income on the ex-dividend date, net of withholding taxes.

l) Expenses

Expense allowance on reinsurance

Expenses payable to the ceding company in lieu of actual commissions and expenses incurred by the ceding company are recognized in the statement of comprehensive income on the accrual basis.

Other fees and expenses

All expenses are recognized in the statement of comprehensive income on the accrual basis.

m) Impairment

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is estimated as the greater of an asset's net selling price or its value in use. An impairment loss is recognized in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount. If in a subsequent period, the amount of an impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the statement of comprehensive income. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.



03

TAXATION

By virtue of the Business Companies Act 2004, the Company is exempt from all forms of taxation in Costa Rica, including income, capital gains and withholding taxes.

04

INVESTMENTS

The Company maintains cash or cash equivalent assets on its balance sheet. It reviews these holdings to determine if there is an exposure to credit risk. In that review it looks at the liquidity of the markets and the ability to the company to access funds when necessary. In all the cases the assets are highly rated and are in markets that are liquid and available without restriction.

05

DUE FROM RELATED PARTIES

2021

Due from related parties

USD 0.00

The amounts due from related parties are unsecured, interest free and have no fixed terms of repayment. All of the entities noted above are related to the Company by way of common shareholders and/or directors. Refer to note 7 for further details of related party transactions.

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REINSURANCE ASSETS

2021

Premiums assumed receivable

USD 0.00

As of December 31, 2022 all deposits and receivables are fully paid and or fully collected.

07

RELATED PARTY TRANSACTIONS

The Company has a management agreement with Northernlights Administration LLC (NLA). In addition, the Company assumes business where NLA acts as managing general underwriter.

08

DUE TO RELATED PARTIES

None.

09

SHARE CAPITAL

Authorized issued and fully paid:

50,000 shares of no-par value each USD 10,000 for 2022. Additional paid-in-capital is in excess of USD 100,000,000.

The holders of the shares are entitled to receive dividends as declared from time to time and to one vote per share at annual and general meetings of the Company. Northernlight Surety Holding LLC, a U.S. limited liability company, holds 100% of the ordinary shares.



The Company received a capital contribution from its only shareholder, Northernlight Surety Holding LLC, at its inception in 2015. Initial assets contributed were comprised of real estate and cash assets. In 2016 the real estate assets were removed and replaced by cash assets.

Minimum capital requirement

The Company subjects itself to as-if minimum capital requirement calculations for insurance companies as established by Solvency II as a reference.

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EXPOSURE REDUCTION

The Company utilizes reinsurance agreements to reduce its exposure to potential large losses in all aspects of its surety business assumed. The Company's reinsurance agreements with other qualified entities, however, do not discharge the primary liability of the Company for the risks assumed. Failure of the assuming entities to honor their obligation could result in losses to the Company. The Company continually evaluates the financial condition of the entities it shares exposure with.

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RISK MANAGEMENT

The Company issues and assumes contracts that transfer credit risk or financial risk or both. In addition, activities of the Company expose it to financial risks such as non-recovery of counter guarantees, insolvency of bondholders, general market risk, credit risk and liquidity risk. Financial assets of the Company include cash and cash equivalents, investments, due from related parties, assets and funds held on account. Financial liabilities comprise liabilities due to related parties and other payables and accrued expenses. The nature and extent of financial instruments outstanding at the reporting date are discussed below.



Surety Risk

The principal risk the Company faces under Surety Bonds is the possibility that the actual claims cannot be recovered from bondholder under counter guarantees signed before the bond is issued. This is influenced by the specific nature of the contractual obligations guaranteed, the development of the financial conditions of the bondholder, insolvency, market conditions, legal impediments, catastrophic circumstances, etc. Therefore, the objective of the Company is to ensure that sufficient provisions are available to cover these eventualities. The Company issues surety bonds to provide surety and financial guarantees. Risks under these bonds usually cover extended reporting periods. The above risk exposure is mitigated by careful selection and implementation of underwriting strategies and guidelines.

a) Market risk

Price risk

Price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. Certain financial instruments of the Company are carried at fair value with fair value changes recognized in the statement of comprehensive income. All changes in market conditions will directly affect net investment income. The Directors of the Company monitor the Company's exposure to price risks.

Interest rate risk

The financial instruments exposed to interest rate risk comprise cash and cash equivalents and funds held on account. The Company is exposed to interest rate cash flow risk on cash and cash equivalents to the extent that prevailing money market rates may fluctuate on those floating rate instruments.

b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. All of the Company's financial assets potentially expose it to credit risk. The extent of the Company's exposure to credit risk in respect of these financial assets approximates their carrying values as recorded in the Company's statement of financial position.

c) Liquidity risk

The Company's listed assets are considered to be readily realizable as they are quoted on major North American stock exchanges.



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FAIR VALUE INFORMATION

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading as at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Company holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate. A financial instrument is regarded

as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. For certain other financial instruments, including cash and cash equivalents, due from and to related parties, insurance assets, reinsurance assets and liabilities, funds held on account, other payable and accrued expenses, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

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CAPITAL RISK MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains a strong working capital position and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may, subject to statutory limitations (refer to note 10), return capital to shareholders or

issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2022. The Company monitors capital using a minimum margin of solvency as required under the IFRS and NAIC Regulations (as amended). Under this method, the Company attempts to maintain assets in excess of liabilities to the extent necessary to preserve the solvency margin.

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STATUTORY REQUIREMENTS

Under the Solvency II regime of the European Union an insurance company is required to hold capital and surplus, combined with reserves liabilities, sufficient to pay future claims at a 99.5% confidence level. Assuming a normal distribution of future claims, such a confidence level can be achieved with assets covering 3 standard deviations from the expected value. According to EIOPA (European Insurance and Occupational Pensions Authority) Report on the fifth Quantitative Impact Study (QIS5) for Solvency II, page 95, a reasonable estimate of the standard deviation for reserves is 15% of the expected value. Thus, capital and surplus equal to

45% of the expected value would cover 3 standard deviations.

Northernlight Surety Company's reserves as of December 31, 2022 are USD 5,742,914. Required capital and surplus under Solvency II would therefore be USD 5,000,000. Northernlight Surety Company's actual capital and surplus exceeds USD 100 Million. Thus, Northernlight Surety Company's surplus exceeds the requirements of Solvency II. This calculation is not mandatory, but carried out as reference to assure that the Company exceeds all comparable solvency requirements.



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LEGAL

Northernlight Surety Company S.R.L. has no litigation as of December 31, 2022. There are currently two bonds that have been called. After an extensive review of the files it is apparent that neither bond has a standing. Either of the two or both may lead to litigation. This has been considered in our current reserves which are deemed sufficient to handle both claims.

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IMPORTANT DEVELOPMENTS

The management of Northernlight Surety Company S.R.L. has approved the move of Northernlight Surety Company to a new jurisdiction. Management has decided to move the company to St. Kitts and Nevis and is currently actively engaged in this process.

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L.E.I. REGISTRATION

Under Legal Entity Identifier (LEI) the company applied for a unique global identifier. It received the following LEI identifier number.
894500NNM38K103DYQ66