



Aspida Life Re Ltd.

**Financial Statements
December 31, 2021 and 2020**

With Report of Independent Auditors

Aspida Life Re Ltd.

Table of Contents

	Page Number
Report of Independent Auditors	1 to 3
Balance Sheets	4
Statement of Operations and Comprehensive Income (loss)	5
Statement of Shareholder's Equity	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 to 25

Report of Independent Auditors

The Board of Directors
Aspida Life Re Ltd.

Opinion

We have audited the financial statements of Aspida Life Re Ltd. (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statement of operations and comprehensive (loss) income, shareholders equity and cash flows for the year ended December 31, 2021 and for the period from December 19, 2020 to December 31, 2020, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the year ended December 31, 2021 and for the period from December 19, 2020 to December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst & Young Ltd.

Hamilton, Bermuda
April 28, 2022

Aspida Life Re Ltd.

Balance Sheet
December 31, 2021 and December 31, 2020

(Expressed in thousands USD)

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Assets:		
Investments:		
Fixed maturity securities, available for sale, at fair value (amortized cost of \$59,420 at December 31, 2021 and \$43,566 at December 31, 2020)	59,087	43,718
Funds withheld receivable (Portion at fair value: 2021 - \$9,255 and 2020 - \$9,050;	3,222,292	2,257,896
Derivative assets	84,163	81,359
Total investments	<u>3,365,542</u>	<u>2,382,973</u>
Cash and cash equivalents	66,122	10,454
Restricted cash	12,140	114
Accrued investment income	386	300
Reinsurance recoverable	29,751	-
Deferred policy acquisition costs and value of business acquired	56,652	31,680
Deferred sales inducements	5,343	-
Other assets	1,139	-
Total Assets	<u>3,537,075</u>	<u>2,425,521</u>
Liabilities and Shareholder's Equity:		
Interest sensitive contract liabilities (portion at fair value: 2021- \$309,785 and 2020 - \$273,669)	3,226,124	2,205,897
Future policy benefits	32,492	13,319
Payables for reinsurance	10,698	11,553
Other liabilities	7,211	4,407
Total liabilities	<u>3,276,525</u>	<u>2,235,176</u>
Shareholder's Equity:		
Common stock	375	375
Additional paid-in-capital	257,007	181,007
Accumulated other comprehensive income (loss)	(333)	(139)
Retained earnings	3,501	9,102
Total shareholder's equity	<u>260,550</u>	<u>190,345</u>
Total Liabilities and Shareholder's Equity	<u>3,537,075</u>	<u>2,425,521</u>

The accompany notes are an integral part to these financial statements

Aspida Life Re Ltd.

Statement of Operations and Comprehensive Income (Loss)

For the year ended December 31, 2021 and period from December 19, 2020 to December 31, 2020

(Expressed in thousands USD)

	Year Ended December 31, 2021	December 19, 2020 to December 31, 2020
Revenues:		
Product charges	2,074	-
Net investment income	676	19
Investment related gains (losses)	122,560	13,771
Total revenues	125,310	13,790
Benefits and expenses:		
Interest sensitive contract benefits	96,634	4,615
Amortization of deferred sales inducements	285	-
Future policy and other policy benefits	9,653	63
Amortization of deferred acquisition costs and VOBA	3,155	-
Policy and other operating expenses	21,184	10
Total benefits and expenses	130,911	4,688
Net (loss) income	(5,601)	9,102

Statement of Comprehensive (Loss) Income

Net (loss) income	(5,601)	9,102
Unrealized investment (losses) gains on available-for-sale securities	(194)	152
Change in unrealized gain (loss) on own credit risk (OCR)	-	(291)
Other comprehensive loss	(194)	(139)
Comprehensive (Loss) Income	(5,795)	8,963

The accompany notes are an integral part to these financial statements

Aspida Life Re Ltd.**Statement of Shareholder's Equity****For the year ended December 31, 2021 and period from December 19, 2020 to December 31, 2020***(Expressed in thousands USD)*

	Common Shares	Additional paid-in capital (APIC)	Retained Earnings	Accumulated other comprehensive income (loss)	Total shareholder's equity
Balance at December 18, 2020	375	181,007	-	-	181,382
Net Income	-	-	9,102	-	9,102
Other comprehensive loss	-	-	-	(139)	(139)
Capital Contributions received	-	-	-	-	-
Balance at December 31, 2020	375	181,007	9,102	(139)	190,345
Net (loss)	-	-	(5,601)	-	(5,601)
Other comprehensive loss	-	-	-	(194)	(194)
Capital Contributions received	-	76,000	-	-	76,000
Balance at December 31, 2021	375	257,007	3,501	(333)	260,550

The accompany notes are an integral part to these financial statements

Aspida Life Re Ltd.

Statement of Cash Flows

For the year ended December 31, 2021 and period from December 19, 2020 to December 31, 2020

(Expressed in thousands USD)

	December 31, 2021	December 19, 2020 to December 31, 2020
Cash Flows from Operating activities		
Net (Loss) income	(5,601)	9,102
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Change in fair value of derivatives	(1,478)	(2,333)
Amortization of deferred acquisition costs and value of business acquired	3,155	-
Amortization of deferred sales inducements	285	-
Policy acquisition costs deferred	(56,380)	-
Amortization of net investment premiums, discounts and other	(762)	(2,575)
Accretion of investments	5	-
Net recognized (gains) losses on investments and derivatives	(111)	-
Change in operating assets and liabilities:		
Accrued investment income	(86)	(12)
Funds withheld asset at fair value	7,006	(18,234)
Interest sensitive contract liabilities	71,450	13,753
Reinsurance recoverable	(29,751)	(8,784)
Future policy benefits	19,173	6,794
Payable for reinsurance	(855)	-
Other assets	(1,139)	-
Other liabilities	2,804	2
Net cash provided by (used in) operating activities	7,715	(2,287)
Cash Flows from investing activities		
Sales, maturities, and repayments of		
Available-for-sale securities	4,815	-
Derivative instruments and other investment assets	26,455	-
Investment funds	(21,000)	-
Purchases of		
Available-for-sale securities	(21,537)	(500)
Derivative instruments and other investment assets	(27,781)	-
Investment funds	21,000	-
Other investing activities, net	2,027	2,309
Net Cash (used in) provided by investing activities	(16,021)	1,809
Cash Flows from financing activities		
Capital contributions	76,000	-
Net cash provided by financing activities	76,000	-
Net increase (decrease) in cash and cash equivalents	67,694	(478)
Cash and cash equivalents at beginning of period ⁽¹⁾	10,568	11,046
Cash and cash equivalents at end of period ⁽¹⁾	78,262	10,568
Supplementary Information		
Non-Cash Transactions		
Deposits on investment-type policies and contracts through reinsurance agreements	1,151,573	-
Withdrawals on investment-type policies and contracts through reinsurance agreements	180,171	-

(1) - Cash and cash equivalents include restricted cash

The accompanying notes are an integral part of these financial statements

(Expressed in thousands USD)

Note 1. Nature of Activities and Significant Accounting Policies

Aspida Life Re Ltd. (“We”, the “Company” or “Aspida Re”), a Bermuda tax exempted company, is a wholly owned subsidiary of Aspida Holdings Ltd., an indirect subsidiary of Ares Management Corporation (“Ares”). Aspida Re provides third party reinsurance solutions covering a variety of products including fixed, deferred and pay-out annuities.

The Company registered with the Bermuda Monetary Authority (the “Authority”) as a Class E long-term insurer from a Class C reinsurer on December 18, 2020, under the Insurance Act 1978 of Bermuda.

Basis of presentation

We have prepared the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual experience could materially differ from these estimates and assumptions. Our principal estimates impact:

- fair value of investments;
- derivatives valuation, including embedded derivatives;
- deferred acquisition costs (DAC), deferred sales inducements (DSI) and value of business acquired (VOBA); and
- future policy benefit reserves and interest sensitive contracts.

The period ended December 31, 2020 is reported for the period beginning at acquisition on December 18, 2020 through December 31, 2020.

Summary of Significant Accounting Policies

Fixed Maturity Securities – Fixed maturity securities includes government and corporate bonds. We classify fixed maturity securities as available-for-sale (AFS) at the time of purchase and subsequently carry them at fair value. Fair value hierarchy and valuation methodologies are discussed in Note 4 – Fair Value. Classification is dependent on a variety of factors including our expected holding period, election of the fair value option and asset and liability matching.

AFS Securities – AFS are reported at fair value and classified based on the possibility that such securities could be sold prior to maturity if that action enables the Company to execute its investment philosophy and appropriately match investment results to operating and liquidity needs. All the Company’s fixed maturity securities are classified as AFS and are reported at their estimated fair value. Unrealized gains and losses on AFS securities are recorded as a separate component of other comprehensive income (loss) (“OCI”). Security transactions are recorded on a trade date basis. Sales of securities are determined on a specific identification basis. Interest income is recognized when earned. Interest income is recognized using an effective yield method giving effect to amortization of premium and accretion of discount and is based on the economic life of the securities. The amortization of premium and accretion of discount also takes into consideration call and maturity dates.

We identify securities that could potentially have impairments that are other-than-temporary (OTTI) by monitoring market events for changes in market interest rates, credit issues, changes in business climate and other similar factors. Indicators of impairment may include changes in the issuers’ credit ratings and outlook, frequency of late payments, pricing levels, key financial ratios, financial statements, revenue

forecasts and cash flow projections. We review securities on a case-by-case basis to determine decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other than temporary.

Funds Withheld at Interest (Asset) – Funds withheld asset represents a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which the Company acts as reinsurer. Although the assets in funds withheld are legally owned by the ceding company, the assets are held separately from the general account of the cedants and all economic rights and obligations on the assets accrue to the Company.

The fair value for the equity and debt securities that support the funds withheld asset, is determined by the Company considering various sources of information, including information provided by third party pricing services. In determining fair value, the Company generally does not adjust the prices obtained from the pricing service. The Company obtains an understanding of the pricing service's valuation methodologies and related inputs.

Derivative Instruments – We invest in equity options to hedge the risks associated with our indexed annuity products and reinsurance agreements. Equity options are financial instruments with values that are derived from financial indices. Derivative assets and liabilities are carried at fair value on the balance sheets.

Embedded Derivatives – We reinsure products, primarily fixed indexed annuity products, that contain embedded derivatives. If we determine the embedded derivative has economic characteristics not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately, unless the fair value option is elected on the host contract. Under the fair value option, bifurcation of the embedded derivative is not necessary as the entire contract is carried at fair value with all related gains and losses recognized in investment related gains (losses) on the statements of income. Embedded derivatives are carried on the balance sheets at fair value in the same line item as the host contract.

Fixed indexed annuity contracts allow the policyholder to elect a fixed interest rate return or an equity market component for which interest credited is based on the performance of certain stock market indices. The equity market option is an embedded derivative. The benefit reserve is equal to the sum of the fair value of the embedded derivative and the host (or guaranteed) component of the contracts. The fair value of the embedded derivatives is computed as the present value of benefits attributable to the excess of the projected policy contract values over the projected minimum guaranteed contract values. The projections of policy contract values are based on assumptions for future policy growth, which include assumptions for expected index credits on the next index crediting date, expected future equity option costs in subsequent renewal periods, interest rates and policyholder behavior assumptions including lapses, partial withdrawals, mortality and the use of benefit riders. The projections of minimum guaranteed contract values include the same assumptions for policyholder behavior as were used to project policy contract values. The embedded derivative cash flows are discounted using a rate that reflects our own credit rating. The host contract is established at contract inception or in the case of an acquisition, the purchase date, as the initial account value less the initial fair value of the embedded derivative and accreted over the policy's life. The host contract accretion rate is calculated as of the policy issue date or purchase date, whichever is later, and remains locked in thereafter. Changes in the fair value of embedded derivatives associated with fixed indexed annuities, are included in interest sensitive contract benefits on the statement of income.

Additionally, reinsurance agreements written on a funds withheld or modified co-reinsurance (“MODCO”) basis contain embedded derivatives. We have determined that the right to receive the total return on the assets supporting the funds withheld at interest, represents a total return swap with a floating rate leg. The fair value of embedded derivatives on funds withheld and MODCO agreements is computed as the unrealized gain (loss) on the underlying assets and is included within funds withheld at interest on the balance sheets for assumed and ceded agreements. The change in the fair value of the embedded derivatives is recorded in investment related gains (losses) on the statement of income. Assumed earnings from funds withheld at interest, and changes in the fair value of embedded derivatives are reported in operating activities on the statement of cash flows. Contributions to and withdrawals from funds withheld at interest are reported in operating activities on the statement of cash flows.

Investment Income – We recognize investment income as it accrues or is legally due, net of investment management and custody fees. Investment income on fixed maturity securities includes coupon interest, as well as the amortization of any premium and the accretion of any discount. Realized gains and losses on sales of investments are included in investment related gains (losses) on the statement of income.

Pushdown Accounting – The Ares acquisition of F&G Reinsurance Ltd. (“F&G Re”) acquisitions was accounted for under the acquisition method of accounting (purchase accounting, or PGAAP), and the Company elected “pushdown” accounting by applying the guidance of Accounting Standard Codification (ASC) 805, Business Combinations.

Pushdown accounting means establishing a new basis for the assets and liabilities of an acquired company based on a “pushdown” of the acquirer’s basis to the acquired company in connection with a change-in-control event. We elected to apply pushdown accounting in the reporting period in which the acquisitions occurred. The decision to apply pushdown accounting is irrevocable.

As a result of the acquisition effective June 1, 2020, there was no change in accounting policy for subsequent measurement as FNF used the same basis of accounting as F&G Re. However, as a result of the acquisition effective December 18, 2020, we adopted a new basis of accounting as established by our acquirer.

The application of pushdown accounting represents the termination of the “old” (i.e., predecessor) reporting entity and the creation of a “new” (i.e., successor) reporting entity as of close-of-business on December 18, 2020, when the change-in-control transaction was consummated. As such, the successor reporting entity’s assets and liabilities were recognized based on the acquirer’s new basis, with an offset to additional paid in capital. In addition, retained earnings and accumulated other comprehensive income of the predecessor was not carried forward, as a new basis of accounting has been established.

Due to the election of pushdown accounting, and the conforming of significant accounting policies, the results of operations, cash flows, and other financial information for the successor period are not comparable to the predecessor periods and thus are not presented for the current year financial statements. The accounting policies relating to the predecessor and successor period, where different, have been disclosed and noted in the financial statements.

Additionally, the Ares acquisition did not result in any pushdown of goodwill, but the Company established VOBA by “Cedent”. The VOBA is based on actuarially estimated present value of future cash flows from existing insurance policies. As of December 31, 2020, the net value of VOBA was zero.

Cash and Cash Equivalents – The Company considers highly liquid securities and other investments with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents. At

December 31, 2021 and 2020, substantially all cash balances were at major financial institutions earning interest. The Company does not anticipate nonperformance by these institutions.

Restricted Cash – Restricted cash primarily consists of cash and cash equivalents held in funds in trust as part of certain reinsurance agreements to secure statutory reserves and liabilities of the insured parties. Restricted cash is reported separately on the balance sheet but is included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows.

Deferred Acquisition Costs, Deferred Sale Inducements, and Net and Value of Business Acquired – The Company incurs costs in connection with acquiring new and renewal insurance business. These costs are directly related to the successful acquisition, renewal of insurance contracts, and sales inducements credited to policy holder account balances. These costs are capitalized as deferred acquisitions costs (“DAC”) or deferred sales inducements (“DSI”) to the extent that they are recoverable from gross profits and recorded together on the balance sheet.

We establish VOBA for blocks of insurance contracts acquired through the acquisition of insurance entities. We record the fair value of the liabilities assumed in two components: reserves and VOBA. Reserves are established using our best estimate assumptions consistent with the policies described below for future policy benefits and interest sensitive contract liabilities. VOBA is the difference between the fair value of the liabilities and the reserves. VOBA can be either positive or negative. Any negative VOBA is recorded within the associated reserves. Positive VOBA is recorded in deferred acquisition costs, deferred sales inducements and value of business acquired on the balance sheets.

VOBA associated with investment contracts without significant revenue streams from sources other than investment of the policyholder funds is amortized using the effective interest method. Negative VOBA is amortized at a constant rate in relation to applicable net policyholder liabilities.

Interest Sensitive Contract Liabilities – Investment contracts include fixed indexed and traditional fixed annuities in the accumulation phase. We carry liabilities for fixed annuities at the account balances without reduction for potential surrender or withdrawal charges, liabilities for immediate annuities without significant mortality risk are calculated as the present value of future liability cash flows and policy maintenance expenses discounted at contractual interest rates. For a discussion regarding our indexed products, refer above to the embedded derivative discussion. Changes in the interest sensitive contract liabilities, excluding deposits and withdrawals, are recorded in interest sensitive contract benefits or product charges on the statement of income.

Future Policy Benefits – Liabilities for nonparticipating long-duration contracts are established using accepted actuarial valuation methods which require the use of assumptions related to expenses, investment yields, mortality, morbidity and persistency, with a provision for adverse deviation, at the date of issue or acquisition. We base other key assumptions, such as mortality and morbidity, on industry standard data adjusted to align with actual company experience, if necessary.

We reinsure deferred annuity contracts which contain guaranteed lifetime withdrawal benefit (GLWB) riders. We establish future policy benefits for GLWB riders by estimating the expected value of withdrawal, and death benefits in excess of the projected policyholder account balances. We recognize the excess proportionally over the accumulation period based on total actual and expected assessments. The methods we use to estimate the liabilities have assumptions about policyholder behavior, which includes lapses, withdrawals and utilization of benefit riders; mortality, expected yield on investments supporting the liability; and market conditions affecting the account balance growth.

Legal Matters and Contingencies – The Company records legal fees and accruals in accordance with ASC Topic 450, “Contingencies”. Contingencies arising from regulatory judgments, claims, assessments, guarantees, litigation, recourse reserves, fines, penalties, and other sources are recorded when deemed probable and reasonably estimable.

Income taxes – At the present time, no taxes are levied in Bermuda on the Company’s receipts, dividends, capital gains, gifts, or net profit. If such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 31, 2035. As of November 18, 2021, the company established a tax domicile in the United Kingdom (“UK”) by convening their Board of Directors meetings in the UK. As the Company does not maintain any operations in the UK, it is not subject to UK corporate taxes.

Recognition of Revenues and Related Expenses – Revenues for investment contracts, including surrender charges, market value adjustments, and GLWB rider fees, are earned when assessed against policyholder account balances during the period. Interest credited to policyholder account balances and the change in fair value of embedded derivatives within fixed indexed annuity contracts is included in interest sensitive contract benefits on the statement of income.

Reclassification – Certain reclassifications have been made to conform with current year presentation

New accounting pronouncements

In February 2016, the Financial Accounting Standards Board (the “FASB”) issued an accounting update to increase transparency and comparability of accounting for lease transactions. The update required: (i) all leases to be recognized on the balance sheet as lease (right-of-use) assets and lease liabilities and (ii) both quantitative and qualitative disclosures regarding key information about leasing arrangements. The update was effective for annual and interim periods beginning after December 15, 2021. The Company has not early adopted this standard and expects it will not have an impact of the financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*. This new guidance replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The guidance also requires enhanced disclosures. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. The purpose of this update is to defer the effective dates for various new accounting pronouncements. This guidance is now effective for fiscal years beginning after December 15, 2023. The Company has not early adopted this standard and is currently evaluating the impact of this guidance on the financial statements.

On March 12, 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) – Facilitation of the effects of Reference Rate Reform on Financial Reporting*. The new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, derivative contracts (including derivative instruments that use interest rates for margining, discounting, or contract price alignment), and other transactions affected by reference rate reform if certain criteria are met. The expedients and exceptions provided by the amendments do not apply to contract modifications made or hedging relationships entered into or evaluated after December 31, 2022, with exceptions for certain hedging relationships. The amendments are available for election from March 12, 2020, through December 31, 2022. This guidance may be elected and applied prospectively as contracts and hedging relationships

are amended for the effects of reference rate reform. This guidance is now effective for fiscal years beginning after December 15, 2024. The Company has not early adopted this standard and is currently evaluating the impact of this guidance on the financial statements

In August 2018, the FASB issued ASU 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The new guidance will significantly change how insurers account for long-duration contracts. The amendments will change existing recognition, measurement, presentation, and disclosure requirements. Issues addressed in the new guidance include: 1) a requirement to review and, if there is a change, update assumptions for the liability for future policy benefits at least annually, and to update the discount rate assumption quarterly, 2) accounting for market risk benefits at fair value, 3) simplified amortization for deferred acquisition costs, and 4) enhanced financial statement presentation and disclosures. In November 2019, the FASB issued ASU 2019-09, *Financial Services—Insurance (Topic 944)*. The purpose of this update is to defer the effective date for ASU 2018-12. This guidance is now effective for fiscal years beginning after December 15, 2025. Early adoption is permitted. The Company has not early adopted this standard and is currently evaluating the impact of this guidance on the financial statements.

Note 2. Investments

AFS Securities – For the periods ending December 31, 2021, and 2020, the Company did not have any other than temporary impairment (OTTI) associated with AFS securities in AOCI. The following tables summarize the amortized cost, gross gains and losses, and estimated fair value of our AFS investments by asset type at December 31, 2021 and 2020.

December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
U.S. corporate	53,339	176	(592)	52,923
U.S. state, municipal and political subdivision	5,581	114	(26)	5,669
U.S. government and agency	500	-	(5)	495
Total	59,420	290	(623)	59,087

December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
U.S. corporate	37,434	143	(3)	37,574
U.S. state, municipal and political subdivision	5,632	12	-	5,644
U.S. government and agency	500	-	-	500
Total	43,566	155	(3)	43,718

The amortized cost and fair value of fixed maturity securities for the year end December 31, 2021, and 2020 are shown by contractual maturity below.

Maturity Period	December 31, 2021	
	Amortized Cost	Fair Value
Due in one year or less	2,363	2,360
Due after one year through five years	25,384	24,971
Due after five years through ten years	12,766	12,636
Due after ten years	18,907	19,120
Investments, available for sale	59,420	59,087

Maturity Period	December 31, 2020	
	Amortized Cost	Fair Value
Due in one year or less	-	-
Due after one year through five years	19,441	19,483
Due after five years through ten years	19,652	19,724
Due after ten years	4,473	4,511
Investments, available for sale	43,566	43,718

Unrealized Losses on AFS Securities – The following summarizes the fair value and gross unrealized losses for AFS securities aggregated by class of security and length of time the fair value has remained below amortized cost.

	December 31, 2021					
	Less Than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S. corporate	40,905	(592)	-	-	40,905	(592)
U.S. state, municipal and political subdivision	3,148	(26)	-	-	3,148	(26)
U.S. government and agency	-	-	495	(5)	495	(5)
Total	44,053	(618)	495	(5)	44,548	(623)

At December 31, 2021, the Company held forty seven AFS securities that were in an unrealized loss position. One of the AFS securities was in an unrealized loss position longer than 12 months.

	December 31, 2020					
	Less Than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S. corporate	6,712	(3)	-	-	6,712	(3)
U.S. state, municipal and political subdivision	-	-	-	-	-	-
U.S. government and agency	500	-	-	-	500	-
Total	7,212	(3)	-	-	7,212	(3)

At December 31, 2020, the Company held seven AFS securities that were in an unrealized loss position. None of the AFS securities were in an unrealized loss position longer than 12 months.

Net Investment Income – Net investment income by asset class consists of the following:

	<u>Year Ended December 31, 2021</u>	<u>December 19, 2020 to December 31, 2020</u>
Investment income:		
AFS	675	19
Cash, cash equivalents and short-term investments	1	-
Total investment income	676	19
Less: Investment expenses	-	-
Net investment income	<u>676</u>	<u>19</u>

Investment Related Gains (Losses) – The Company's investment related gains (losses) include the difference between the amortized cost and proceeds from the sale and redemption of AFS securities, net of impairment losses and expenses recorded through income. Investment related gains (losses) are also generated from changes in the fair values of derivatives and embedded derivatives.

	<u>Year Ended December 31, 2021</u>	<u>December 19, 2020 to December 31, 2020</u>
Fixed maturity AFS securities:		
Realized gains on investment activity	3	-
Realized (losses) on investment activity	(114)	-
Net gains (losses) on AFS	<u>(111)</u>	<u>-</u>
Derivative gains (losses), net	46,541	2,550
Embedded derivatives, net	89,685	11,221
Less: Investment expenses	(13,555)	-
Total investment related gains (losses), net	<u>122,560</u>	<u>13,771</u>

Funds Withheld at Interest – Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with MODCO and funds withheld reinsurance agreements in which we act as the reinsurer. Generally, assets equal to statutory reserves are withheld and legally owned by the ceding company. The funds withheld at interest is comprised of the host contract and an embedded derivative. We are subject to the investment performance on the withheld assets with the total return directly impacting the host contract and the embedded derivative. The change in the embedded derivative in our reinsurance agreements, which is similar to a total return swap on the income generated by the underlying assets held by the ceding companies, is recorded in investment related gains (losses). Although we do not directly control the underlying investments in the funds withheld at interest, in each instance the ceding company has hired Ares Insurance Services (AIS) to manage the withheld assets in accordance with our investment guidelines. The following summarizes the underlying investment composition of the funds withheld at interest, including related party:

The following summarizes the underlying investment composition of the funds withheld at interest:

	December 31, 2021	
	Carrying Value	Percent
Corporate bonds	1,162,150	36.1%
Government bonds	56,673	1.8%
Municipal bonds	200,094	6.2%
Asset backed securities	764,350	23.7%
Mortgage backed securities	412,959	12.8%
Equities	129,957	4.0%
Money market funds	146,895	4.6%
Preferred stock	342,427	10.6%
Derivatives	6,787	0.2%
Total funds withheld at interest	3,222,292	100%

	December 31, 2020	
	Carrying Value	Percent
Corporate bonds	1,013,384	44.9%
Government bonds	68,147	3.0%
Municipal bonds	221,679	9.8%
Asset backed securities	295,729	13.1%
Mortgage backed securities	233,418	10.3%
Equities	54,243	2.4%
Money market funds	28,944	1.3%
Preferred stock	335,956	14.9%
Derivatives	6,396	0.3%
Total funds withheld at interest	2,257,896	100%

Note 3. Derivatives

We use a variety of derivative instruments to manage liability risks associated with our indexed annuity products. None of the Company's derivative instruments are classified as hedges for accounting purposes and, accordingly, all changes in the fair value of derivatives are included in investment related gains (losses) on the statement of income.

	December 31, 2021			December 31, 2020		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Derivatives not designated as hedges						
Equity options	1,012,260	84,163	-	986,153	81,359	-
Embedded Derivatives:						
Funds withheld receivable		9,255	-		9,050	-
Interest sensitive contract liabilities		-	309,785		-	273,669
Total derivatives not designated as hedges		93,418	309,785		90,409	273,669

A summary of the gains (losses) included in the Statement of Income related to the Company's derivative instruments is presented below:

	Year Ended December 31, 2021	December 19, 2020 to December 31, 2020
Derivatives:		
Equity options	46,541	2,550
Embedded derivatives funds withheld	89,685	-
Amounts recognized in investment related gains	136,226	2,550
Interest sensitive contract liabilities ⁽¹⁾	(36,116)	(4,439)
Total gains on derivatives not designated as hedges	100,110	(1,889)

(1) - Amounts are included within interest sensitive contract benefits on the Statement of Income.

Derivatives Not Designated as Hedges

Equity options – We use equity indexed options to economically hedge fixed indexed annuity products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index, primarily the S&P 500. To hedge against adverse changes in equity indices, we enter into contracts to buy equity indexed options. The contracts are net settled in cash based on differentials in the indices at the time of exercise and the strike price.

Embedded derivatives – We have embedded derivatives which are required to be separated from their host contracts and reported as derivatives. Host contracts include reinsurance agreements structured on MODCO or funds withheld basis and indexed annuity products.

Credit Risk – We may be exposed to credit-related losses in the event of counterparty nonperformance on derivative financial instruments. Generally, the current credit exposure of our derivative contracts is the fair value at the reporting date less any collateral received from the counterparty.

We manage credit risk related to over-the-counter derivatives by entering into transactions with creditworthy counterparties.

Note 4. Fair value measurements

Authoritative guidance for *Fair Value Measurements and Disclosures* defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. In compliance with these principles, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument. In accordance with the authoritative guidance for Fair Value Measurements and Disclosures, assets and liabilities recorded at fair value on the balance sheet are categorized as Level 1, 2 and 3.

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. The Company defines an active market as a market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Quoted prices in markets that are not active or valuation techniques that require inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- i. Quoted prices for similar assets or liabilities (other than quoted prices in Level 1) in active markets;
- ii. Quoted prices for identical or similar assets or liabilities in non-active markets;
- iii. Inputs other than quoted market prices that are observable; and
- iv. Inputs that are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the assets or liabilities.

Level 3 - Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These valuations, whether derived internally or obtained from a third party, use critical assumptions that are not widely available to estimate market participant expectations in valuing the asset or liability. When available, the estimated fair value of securities is based on quoted prices in active markets that are readily and regularly obtainable. When quoted prices in active markets are not available, the determination of estimated fair value may be based on market standard valuation methodologies (pricing models), including discounted cash flow methodologies, matrix pricing, or other similar techniques, as well as significant management judgement or estimate

The Company measures the fair value of its securities based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity security and the Company will then consistently apply the valuation methodology to measure the security's fair value. The Company's fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include third-party pricing services, independent broker quotations, or pricing matrices. The Company uses observable and unobservable inputs in its valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data. In addition, market indicators and industry and economic events are monitored, and further market data will be acquired when certain thresholds are met.

For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. Management believes the broker quotes are prices at which trades could be executed based on historical trades executed at broker-quoted or slightly higher prices.

The fair value measurement of the call option derivatives is determined via market observable information. The market observable inputs are the market value of the option.

The Company's assets and liabilities measured at fair value on a recurring basis are summarized according to the hierarchy previously described as follows:

December 31, 2021	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Available-for-sale securities:				
U.S. corporate	-	52,923	-	52,923
U.S. state, municipal and political subdivision	-	5,669	-	5,669
U.S. government and agency	-	495	-	495
Total AFS securities	-	59,087	-	59,087
Funds withheld receivable	-	-	9,255	9,255
Derivative assets	-	84,163	-	84,163
Cash and equivalents	66,122	-	-	66,122
Restricted cash	12,140	-	-	12,140
Total	78,262	143,250	9,255	230,767
Liabilities:				
Interest sensitive contract liability				
- embedded derivative	-	-	309,785	309,785
Total	-	-	309,785	309,785
December 31, 2020	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Available-for-sale securities:				
U.S. corporate	-	37,574	-	37,574
U.S. state, municipal and political subdivision	-	5,644	-	5,644
U.S. government and agency	-	500	-	500
Total AFS securities	-	43,718	-	43,718
Funds withheld receivable	-	-	9,050	9,050
Derivative assets	-	81,359	-	81,359
Cash and equivalents	10,454	-	-	10,454
Restricted cash	114	-	-	114
Total	10,568	125,077	9,050	144,695
Liabilities:				
Interest sensitive contract liability				
- embedded derivative	-	-	273,669	273,669
Total	-	-	273,669	273,669

Fair Value Valuation Methods – We used the following valuation methods and assumptions to estimate fair value:

AFS securities – We obtain the fair value for most marketable securities without an active market from several commercial pricing services. These are classified as Level 2 assets. The pricing services incorporate a variety of market observable information in their valuation techniques, including benchmark yields, trading activity, credit quality, issuer spreads, bids, offers and other reference data. This category typically includes corporate bonds, and US agency and government guaranteed securities.

Funds withheld at interest embedded derivative – We estimate the fair value of the embedded derivative based on the change in the fair value of the assets supporting the funds withheld receivable under MODCO and funds withheld reinsurance agreements. As a result, the fair value of the embedded derivative is classified as a 3 based on the valuation methods used for the assets held supporting the reinsurance agreements.

Derivatives – Derivative contracts can be exchange traded or over-the-counter. Exchange-traded derivatives typically fall within Level 1 of the fair value hierarchy depending on trading activity. Over-the-

counter derivatives are valued using valuation models or an income approach using third-party broker valuations. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlation of the inputs. We consider and incorporate counterparty credit risk in the valuation process through counterparty credit rating requirements and monitoring of overall exposure. We also evaluate and include our own nonperformance risk in valuing derivatives. The majority of our derivatives trade in liquid markets; therefore, we can verify model inputs and model selection does not involve significant management judgment. These are typically classified within Level 2 of the fair value hierarchy.

Cash and cash equivalents, including restricted cash – The carrying amount for cash equals fair value. We estimate the fair value for cash equivalents based on quoted market prices. These assets are classified as Level 1.

Interest sensitive contract liabilities embedded derivative – Embedded derivatives related to interest sensitive contract liabilities with fixed indexed annuity products are classified as Level 3. The valuations include significant unobservable inputs associated with economic assumptions and actuarial assumptions for policyholder behavior.

Level 3 Financial Instruments – The following are reconciliations for Level 3 assets and liabilities measured at fair value on a recurring basis:

	Fair Value at January 1, 2021	Gains (Losses) Included in Income	Gains (Losses) Included in OCI	Purchases, Issuances, and Sales	Settlements	Transfers In (Out)	Fair Value at December 31, 2021
Assets							
Funds withheld receivables	9,050	205	-	-	-	-	9,255
Total Level 3 Assets	<u>9,050</u>	<u>205</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,255</u>
Liabilities							
Interest sensitive contract liabilities - embedded derivatives	273,669	(36,116)	-	-	-	-	309,785
Total Level 3 Liabilities	<u>273,669</u>	<u>(36,116)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>309,785</u>

	Fair Value at December 19, 2020	Gains (Losses) Included in Income	Gains (Losses) Included in OCI	Purchases, Issuances, and Sales	Settlements	Transfers In (Out)	Fair Value at December 31, 2020
Assets							
Funds withheld receivables	-	9,050	-	-	-	-	9,050
Total Level 3 Assets	<u>-</u>	<u>9,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,050</u>
Liabilities							
Interest sensitive contract liabilities - embedded derivatives	269,230	(4,439)	-	-	-	-	273,669
Total Level 3 Liabilities	<u>269,230</u>	<u>(4,439)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>273,669</u>

Significant Unobservable Inputs – Significant unobservable inputs occur when we could not obtain or corroborate the quantitative detail of the inputs. This applies to fixed maturity securities, equity securities, mortgage loans and certain derivatives, as well as embedded derivatives in liabilities. Additional significant unobservable inputs are described below.

Interest sensitive contract liabilities – embedded derivative – Significant unobservable inputs we use in the fixed indexed annuities embedded derivative of the interest sensitive contract liabilities valuation include:

1. Nonperformance risk – For contracts we issue, we use the credit spread, relative to the US Department of the Treasury (Treasury) curve based on our public credit rating as of the valuation date. This represents our credit risk for use in the estimate of the fair value of embedded derivatives.
2. Option budget – We assume future hedge costs in the derivative's fair value estimate. The level of option budgets determines the future costs of the options and impacts future policyholder account value growth.

3. Policyholder behavior – We regularly review the lapse and withdrawal assumptions (surrender rate). These are based on our initial pricing assumptions updated for actual experience. Actual experience may be limited for recently issued products.

December 31, 2021							
	Fair Value	Valuation Technique	Significant Unobservable Inputs	Minimum	Maximum	Weighted Average of Inputs	Impact of increase in input on fair value
Interest sensitive contract liabilities - fixed indexed annuities embedded derivatives	309,785	Option budget method	Nonperformance risk	0.9%	0.9%	0.9%	Decrease
			Option budget	0.4%	5.3%	1.8%	Increase
			Surrender rate	2.9%	12.4%	5.9%	Decrease
December 31, 2021							
	Fair Value	Valuation Technique	Significant Unobservable Inputs	Minimum	Maximum	Weighted Average of Inputs	Impact of increase in input on fair value
Interest sensitive contract liabilities - fixed indexed annuities embedded derivatives	273,669	Option budget method	Nonperformance risk	1%	1.0%	1%	Decrease
			Option budget	1%	5.3%	2%	Increase
			Surrender rate	3%	12.4%	6%	Decrease

Fair Value of Financial Instruments Not Carried at Fair Value – The following represents our financial instruments not carried at fair value on the balance sheets:

December 31, 2021						
	CV	FV	NAV	Level 1	Level 2	Level 3
Financial Assets						
Funds withheld at interest	3,213,037	3,213,037	-	-	-	3,213,037
Total Financial Assets Not Carried at Fair Value	3,213,037	3,213,037	-	-	-	3,213,037
Financial Liabilities						
Interest sensitive contract liabilities	2,944,653	2,944,653	-	-	-	2,944,653
Total Financial Liabilities Not Carried at Fair Value	2,944,653	2,944,653	-	-	-	2,944,653
December 31, 2020						
	CV	FV	NAV	Level 1	Level 2	Level 3
Financial Assets						
Funds withheld at interest	2,248,846	2,248,846	-	-	-	2,248,846
Total Financial Assets Not Carried at Fair Value	2,248,846	2,248,846	-	-	-	2,248,846
Financial Liabilities						
Interest sensitive contract liabilities	1,932,228	1,932,228	-	-	-	1,932,228
Total Financial Liabilities Not Carried at Fair Value	1,932,228	1,932,228	-	-	-	1,932,228

We estimate the fair value for financial instruments not carried at fair value using the same methods and assumptions as those we carry at fair value. The financial instruments presented above are reported at carrying value on the balance sheets; however, in the case of funds withheld at interest and interest sensitive contract liabilities the carrying amount approximates fair value.

Note 5. Reinsurance

Reinsurance typically provides for recapture rights on the part of the ceding company for certain events of default. Additionally, some agreements require us to place assets in trust accounts for the benefit of the ceding entity. The required minimum assets are equal to or greater than statutory reserves, as defined by the agreement, and were \$83,195 and \$83,861 as of December 31, 2021, and 2020, respectively. Although we own the assets placed in trust, their use is restricted based on the trust agreement terms. If the statutory book value of the assets, or in certain cases fair value, in a trust decline because of impairments or other reasons, we may be required to contribute additional assets to the trust.

DAC and deferred sales inducement are amortized over the life of the reinsurance agreements on a basis consistent with our DAC amortization policy.

Note 6. Deferred Acquisition Costs, Deferred Sales Inducements, and Value of Acquired Business

The following presents a roll forward of deferred acquisition costs (DAC), deferred sales inducements (DSI), and value of business acquired (VOBA):

	DAC	DSI	VOBA	Total
Balance at December 19, 2020	-	-	31,680	31,680
Amortization	-	-	-	-
Balance at December 31, 2020	-	-	31,680	31,680
Additions	50,752	5,628	-	56,380
Measurement period adjustment	-	-	(21,319)	(21,319)
Amortization	(3,367)	(285)	(1,094)	(4,746)
Balance at December 31, 2021	<u>47,385</u>	<u>5,343</u>	<u>9,267</u>	<u>61,995</u>

The expected amortization of VOBA for the next five years is as follows:

Year	VOBA Asset Amortization
2022	1,374
2023	1,225
2024	1,077
2025	936
2026	804

Note 7. Taxes

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company received an undertaking from the Bermuda Minister of Finance that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035. As of November 18, 2021, the Company established a tax domicile in the United Kingdom ("UK") by convening their Board of Directors meetings in the UK. A significant portion of the ongoing profits of the Company are expected to be attributed to a Bermuda branch of the Company for UK tax purposes, and it is not expected that a material portion of the income attributable to such Bermuda branch will be subject to UK corporation tax.

Note 8. Equity

The Company has one class of common stock, which represents 100% of the Company's total voting shares. All issued shares are beneficially owned by and were transferred to Aspida Holdings Ltd. Aspida Holdings Ltd. is an indirect subsidiary of Ares Management Corporation. The Company is authorized to and has issued 375,000 shares at a par value of \$1.00 (One dollar) each.

At December 31, 2021 and 2020, the Company had no DAC, VOBA, DSI, or future benefits adjustments on AFS Securities. The change in accumulated other comprehensive income (AOCI) for the period ending December 31, 2021, included unrealized losses of \$194 on AFS securities, net of related offsets. Included in the period ended December 31, 2020 was unrealized gain of \$152 on AFS securities, net of related offsets.

Note 9. Statutory Requirements

The Company is licensed by the Bermuda Monetary Authority (BMA) as a Class E long-term insurer and is subject to the Insurance Act 1978, as amended (Bermuda Insurance Act) and regulations promulgated thereunder. Effective January 1, 2016, the BMA implemented the Economic Balance Sheet (EBS) framework into the Bermuda Solvency and Capital Requirement (BSCR) for commercial insurers which was granted equivalency to the European Union's Directive (2009/138/EC) ("Solvency II") in March 2016. Under this framework a Class E long-term insurer must produce three sets of financial statements:

1. GAAP Financial Statements – Financial statements prepared in accordance with an internationally recognized comprehensive base of accounting, and for which the Company has elected to prepare US GAAP Financial statements. These financial statements form the basis for the preparation of both the Statutory Financial Statements and the Economic Balance Sheet.
2. Statutory Financial Statements (SFS) – Equal to the GAAP financial statements adjusted for:
 - a. Prudential filters that include adjustments to eliminate non-admitted assets including goodwill and other similar intangible assets not considered admissible for solvency purposes and include certain assets and liabilities that are generally off-balance sheet under general purpose reporting. These include items such as guarantees and other instruments that do not relate to the insurer's own insurance contracts.
 - b. Directions or permitted practices issued by the BMA.
3. Economic Balance Sheet (EBS) – A balance sheet where assets are recorded based on GAAP fair values and insurance reserves are based on technical provisions comprised of a best estimate liability plus a risk margin. The best estimate liability may be calculated by applying the standard approach or the scenario approach. Under the standard approach the discount rate for insurance reserves is a rate prescribed by the BMA. Under the scenario approach the discount rate for insurance reserves is based on the yield on eligible assets owned by the insurer as determined under the worst result of nine prescribed stressed conditions. We utilized the scenario approach.

Under the Bermuda Insurance Act, is required to maintain minimum EBS capital and surplus to meet the Enhanced Capital Requirement (ECR). Our ECR is equal to the greater of \$8,000, 2% of the first \$500,000 of statutory assets plus 1.5% of statutory assets above \$500,000 or 25% of ECR. The ECR is calculated based on a risk-based capital model where risk factor charges are applied to the EBS. For the periods ended December 31, 2021, and 2020 we were in excess of the minimum levels required. The following represents the EBS capital and surplus and BSCR ratio.

	EBS capital & surplus		BSCR ratio	
	December 31,		December 31,	
	2021	2020	2021	2020
Aspida Re	303,559	228,537	228%	253%

To enable the BMA to better assess the quality of the insurer's capital resources, a Class E long-term insurer is required to disclose the makeup of its capital in accordance with a "3-tiered capital system". Highest quality capital is classified as Tier 1 Capital, lesser quality capital is classified as either Tier 2 or Tier 3 Capital. As of December 31, 2021, all of the Company's eligible capital used to meet the MSM and ECR was Tier 1 Capital.

Under the Bermuda Insurance Act, the Company is prohibited from paying a dividend in an amount exceeding 25% of the prior year's statutory capital and surplus, unless at least two members of the Company's board of directors and its principal representative in Bermuda sign and submit to the BMA an affidavit attesting that a dividend in excess of this amount would not cause the Company to fail to meet its relevant margins. The following table represents the Company's Statutory capital and surplus:

	December 31,	
	2021	2020
Total Shareholder's Equity per GAAPs	260,550	190,345
Non-admitted assets ⁽¹⁾	(229)	-
Statutory capital and surplus	260,321	190,345

1. Non-admitted assets arose which are not admissible for the statutory capital and surplus.

Note 10. Litigation, Claims and Assessments

At December 31, 2021 there were no matters arising outside the normal course of business.

Note 11. Related party balances

Ares Insurance Solutions, LLC (AIS) – Effective December 18, 2020, the Company entered into an investment management agreement with Ares Insurance Solutions, LLC to manage substantially all of its investments. Ares Insurance Solutions, LLC provides a full suite of services that includes: direct investment management; asset sourcing and allocation; mergers and acquisition sourcing, and strategic support and advice. Ares Insurance Solutions, LLC also provides certain operational support services for our investment portfolio including investment compliance, legal and risk management support.

For the year ended December 31, 2021, and period ended December 31, 2020, we incurred management fees of \$12,214 and \$0, respectively, and these amounts are included in net realized gains and losses on the statement of income. As of December 31, 2021, and 2020, management fees of \$4,101 and \$0 respectively, were payable to Ares Insurance Solutions, LLC, and are included in other liabilities on the balance sheets.

Investments in affiliates – At December 31, 2021 and 2020, the Company held \$117,868 and \$0, respectively of investments in related party assets consisting of investment funds and securities for which an affiliate is the manager of the underlying securitization vehicle. These investments are included on the balance sheet in the funds withheld at interest.

Note 12. Commitment and Contingencies

The restricted assets are primarily related to reinsurance trusts established in accordance with coinsurance agreements. The total restricted assets included on the balance sheet at December 31, 2021 and 2020 are as follows:

	December 31,	
	2021	2020
AFS securities	59,087	37,574
Restricted cash	12,140	114
Short-term investments	4,729	6,144
Derivatives	84,163	81,358
Total restricted assets	160,119	125,190

Concentration of Credit Risk – Credit risk arises out of the failure of a counterparty to perform according to the terms of the contract. There are no significant concentrations of credit risk within the Company's cash and cash equivalents, fixed maturity investments or other invested assets balances.

Note 14. Subsequent Events

ASC Topic 855, "Subsequent Events" ("ASC 855"), establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 requires the Company to evaluate events that occur after the balance sheet date through the date the Company's financial statements are issued and to determine whether adjustments to or additional disclosures in the financial statements are necessary.

As of April 27, 2022, the date the financial statements were made available to issue, there were no subsequent events to report.