Financial Statements and Report of Independent Certified Public Accountants

# Oceanview Reinsurance Ltd.

## (A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.)

For the years ended December 31, 2021 and 2020

# Contents

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# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholder
Oceanview Reinsurance Ltd.

**Opinion**
We have audited the financial statements of Oceanview Reinsurance Ltd. (a Bermuda limited corporation) (the “Company”), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations and comprehensive (loss) income, changes in stockholder’s equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

**Basis for opinion**
We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US 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 from 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 the financial statements are available to be issued.

Grant Thornton

**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 from 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 US 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 US 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.

Grant Thornton LLP

Hartford, Connecticut
April 25, 2022

**Oceanview Reinsurance Ltd.**

**(A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.)**

## BALANCE SHEETS

**December 31, 2021 and 2020**

*(U.S. Dollars in Thousands)*

| | 2021 | 2020 |
|---|---|---|
| Assets: | | |
| Available-for-sale securities, at fair value (cost of $0 and $12,846, respectively) | $ — | $ 12,535 |
| Funds withheld asset ( ($7,074) and $8,319, respectively, at fair value) | 2,011,269 | 1,834,265 |
| Cash and cash equivalents | 20,763 | 15,196 |
| Restricted cash | 2,292 | 800 |
| Derivative assets, at fair value (cost of $0) | 706 | 1,649 |
| Deferred acquisition costs, net | 16,714 | 189 |
| Interest receivable | — | 11 |
| Accounts receivable | 2,880 | 2,572 |
| Total assets | $ 2,054,624 | $ 1,867,217 |
| Liabilities: | | |
| Insurance reserves ($14,435 and $0, respectively, at fair value) | $ 1,872,074 | 1,660,995 |
| Accounts payable and accrued expenses | 3,963 | 33,804 |
| Derivative liability, at fair value (cost of $0) | 1,280 | 1,415 |
| Due to related parties | 42,317 | 42,000 |
| Deferred profit liability | 26,654 | 22,891 |
| Ceding commission payable | 503 | 115 |
| Total liabilities | 1,946,791 | 1,761,220 |
| Stockholder's Equity: | | |
| Common stock, par value $1.00 per share, 250,000 shares authorized, issued, and outstanding | 250 | 250 |
| Additional paid-in capital | 80,250 | 77,850 |
| Retained earnings | 27,333 | 28,202 |
| Accumulated other comprehensive loss | — | (305) |
| Total stockholder's equity | 107,833 | 105,997 |
| Total liabilities and stockholder's equity | $ 2,054,624 | $ 1,867,217 |

The accompanying notes are an integral part of these financial statements.

**Oceanview Reinsurance Ltd.**

**(A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.)**

## STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

**For the Years Ended December 31, 2021 and 2020**

*(U.S. Dollars in Thousands)*

| | 2021 | 2020 |
|---|---|---|
| Revenues: | | |
| Investment (loss) income, net of fees and expenses | $ (1,383) | $ 2,830 |
| Net realized investment loss | (160) | (1,575) |
| Net derivative (loss) gain | (4,670) | 4,239 |
| Income from reinsurance | 64,040 | 10,872 |
| Total revenues | 57,827 | 16,366 |
| Expenses: | | |
| Interest expense | 312 | 464 |
| General and administrative | 2,529 | 2,803 |
| Interest sensitive contract benefits | 48,344 | 2,599 |
| Professional fees | 792 | 934 |
| Commissions on reinsurance, net of DAC | 6,719 | 1,430 |
| Total expenses | 58,696 | 8,230 |
| Net (loss) income | $ (869) | $ 8,136 |
| Other comprehensive income (loss): | | |
| Unrealized gain (loss) on available-for-sale securities, net | 305 | (1,833) |
| Comprehensive (loss) income | $ (564) | $ 6,303 |

The accompanying notes are an integral part of these financial statements.

**Oceanview Reinsurance Ltd.**

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## STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

**For the Years Ended 31 December, 2021 and 2020**

*(U.S. Dollars in Thousands Except Number of Shares)*

| | Number of Shares | Common stock $1 par value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| Balance at December 31, 2019 | 250,000 | $ 250 | $ 102,850 | $ 20,066 | $ 1,528 | $ 124,694 |
| Net income | — | — | — | 8,136 | — | 8,136 |
| Other comprehensive loss | — | — | — | — | (1,833) | (1,833) |
| Capital contribution | — | — | 20,000 | — | — | 20,000 |
| Capital distribution | — | — | (45,000) | — | — | (45,000) |
| Balance at December 31, 2020 | 250,000 | 250 | 77,850 | 28,202 | (305) | 105,997 |
| Net loss | — | — | — | (869) | — | (869) |
| Other comprehensive income | — | — | — | — | 305 | 305 |
| Capital contribution | — | — | 2,400 | — | — | 2,400 |
| Balance at December 31, 2021 | 250,000 | $ 250 | $ 80,250 | $ 27,333 | $ — | $ 107,833 |

The accompanying notes are an integral part of these financial statements.

**Oceanview Reinsurance Ltd.**

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## STATEMENTS OF CASH FLOWS

**For the Years Ended December 31, 2021 and 2020**

*(U.S. Dollars in Thousands)*

| | 2021 | 2020 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net (loss) income | $ (869) | $ 8,136 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Accretion of securities premium | (8) | 122 |
| Net investment loss | 160 | 1,575 |
| Net derivative loss (gain) | 4,670 | (4,239) |
| Net change in: | | |
| Accounts receivable | (308) | 8,385 |
| Deferred acquisition costs | (16,571) | (35,452) |
| Deferred profit liability | 7,375 | — |
| Amortization of deferred profit liability | (3,613) | — |
| Amortization of deferred acquisition costs | 46 | — |
| Interest receivable | 11 | 126 |
| Accounts payable and accrued expenses | (29,453) | 33,259 |
| Due to related parties | 315 | 2 |
| Net cash (used in) provided by operating activities | (38,245) | 11,914 |
| Cash flows from investing activities: | | |
| Purchases of whole loan investments | — | (168,375) |
| Proceeds from sale and liquidations of whole loan investments | — | 163,069 |
| Purchases of available-for-sale securities | — | (15,551) |
| Proceeds from sales of available-for-sale securities | 12,690 | 192,774 |
| Net receipts for derivatives | (3,862) | 4,089 |
| Net cash provided by investing activities | 8,828 | 176,006 |
| Cash flows from financing activities: | | |
| Proceeds (payments) for reinsurance agreements on investment and deposit-type contracts, net | 34,076 | (105,281) |
| Proceeds from note payable | — | 42,000 |
| Borrowings under repurchase agreements | — | 236,210 |
| Repayments under repurchase agreements | — | (378,674) |
| Capital contribution | 2,400 | 20,000 |
| Capital distribution to stockholders | — | (45,000) |
| Net cash provided by (used in) financing activities | 36,476 | (230,745) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 7,059 | (42,825) |
| Cash, cash equivalents and restricted cash, beginning of year | 15,996 | 58,821 |
| Cash, cash equivalents and restricted cash, end of year | $ 23,055 | $ 15,996 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $ 312 | $ 272 |
| Deposits on deposit-type contracts through reinsurance agreement | $ — | $ 553,115 |
| Deposits on investment-type contracts through reinsurance agreement | $ 201,778 | $ 1,006,927 |

The accompanying notes are an integral part of these financial statements.

NOTE A - ORGANIZATION

Oceanview Reinsurance Ltd. (the “Company”) is an exempted company incorporated in Bermuda on April 20, 2018, and is a wholly owned subsidiary of Oceanview Holdings, Ltd. (“Holdings”). All of the shares of Holdings are owned by Bayview Opportunity Fund V Oceanview, L.P. (the “Fund”), a Bermuda limited partnership. The general partner of the Fund is a wholly-owned subsidiary of Bayview Asset Management, LLC (“Bayview”). The Company was formed for the purpose of providing traditional reinsurance, which includes individual and group life reinsurance. On January 17, 2019, the Company obtained its certificate of registration as a Class E insurer under the Insurance Act 1978 from the Bermuda Monetary Authority (“BMA”).

Oceanview Asset Management, LLC (the “Management Company” and a wholly-owned subsidiary of Bayview), a Delaware limited liability company, provides investment advice and directs the investments in structured products and other related assets (“Portfolio Assets”). See NOTE K – Related Party Transactions.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies adhered to in the preparation of these financial statements in conformity with generally accepted accounting principles in the United States of America ("US GAAP").

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include the valuation of available-for-sale securities and derivatives (including embedded derivatives). Actual results could differ from those estimates.

Available-for-Sale Securities, at Fair Value

Available-for-sale securities are reported at fair value and are so classified based upon 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 of the Company’s fixed maturity securities are classified as available-for-sale (“AFS”) and are reported at their estimated fair value. Unrealized investment gains and losses on AFS securities are recorded as a separate component of other comprehensive income (loss) (“OCI”). Securities transactions are recorded on a trade date basis. Sales of securities are determined on a specific identification basis.

Interest income and prepayment fees are 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, which for mortgage-backed securities considers the estimated timing and amount of prepayments of the underlying loans. The amortization of premium and accretion of discount also takes into consideration call and maturity dates.

The Company periodically evaluates these securities for impairment. The assessment of whether impairments have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in estimated fair value, as well as an analysis of the gross unrealized losses by severity and/or age.

For securities in an unrealized loss position, an other-than-temporary impairment ("OTTI") is recognized in earnings within net investment gains (losses) when it is anticipated that the amortized cost will not be recovered. When either: (i) the Company has the intent to sell the security; or (ii) it is more likely than not that the Company will be required to sell the security before recovery, the OTTI recognized in earnings is the entire difference between the security's amortized cost and estimated fair value. If neither of these conditions exists, the difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings ("credit loss"). If the estimated fair value is less than the present value of projected future cash flows expected to be collected, this portion of OTTI related to other-than-credit factors ("noncredit loss") is recorded in OCI.

Available-for-sale securities are valued at estimated fair value, by using the following hierarchy, if available:

i. By using securities exchange quotations/listed market prices,
ii. By using pricing services or broker dealer quotations, or
iii. By using a good faith estimate of fair value.

Unrealized gains and losses on available-for-sale securities are reflected as a direct charge or credit to accumulated other comprehensive income loss in stockholder's equity on the balance sheets.

Funds Withheld 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 separated from the general accounts of the cedents and all economic rights and obligations on the assets accrue to the Company. The underlying agreements contain embedded derivatives as discussed in the embedded derivatives section.

Embedded Derivatives

Reinsurance agreements written on a funds withheld basis contain embedded derivatives. Authoritative guidance for derivatives and hedging (ASC Topic 815) states that an embedded derivative shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risk of the host contract. If it is determined that 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.

The right to receive or obligation to pay the total return on the assets supporting the funds withheld asset represents an embedded derivative. The fair value of embedded derivative on funds withheld asset is computed as the unrealized gain (loss) on the underlying assets and is included in the funds withheld asset on the balances sheets for assumed agreements. The change in the fair value of the embedded derivatives is recorded in income from reinsurance on the statements of operations and comprehensive (loss) income.

Net Investment Income

Dividends and interest income, recorded in net investment income per the statements of operations and comprehensive (loss) income, are recognized on an accrual basis. Amortization of premiums and accretion of discounts on investments in available-for-sale securities are reflected in net investment income over the contractual terms of the investments in a manner that produces a constant effective yield. Net investment income is presented net of incurred investment expenses.

Net Investment Gains

Net investment gains include net realized and unrealized investment gains and losses from the sale of investments and write-downs for other-than-temporary impairments of available-for-sale investments. It also includes gains and losses on securities carried at fair value. Realized gains and losses on the sale of investments are determined using the specific cost identification method.

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. At December 31, 2021 and 2020, certain cash amounts are in bank accounts insured by the FDIC up to $250,000. The Company is exposed to losses in excess of the FDIC insured amount.

Restricted Cash

Restricted cash includes deposits and collateral under various derivative and reinsurance agreements. At December 31, 2021 and 2020, restricted cash is held with various counterparties in interest bearing accounts.

Derivative Instruments

The Company invests in derivatives to hedge the risks experienced in its ongoing operations, particularly as it relates to interest rate risk. Derivative assets and liabilities are carried at fair value on the balance sheets. At December 31, 2021 and 2020, no derivatives had been designated as hedges for accounting purposes.

Deferred Acquisition Costs, Net

The Company incurs significant costs in connection with acquiring new and renewal insurance business. Costs that directly are related to the successful acquisition or renewal of insurance contracts are capitalized as deferred acquisitions costs (“DAC”) to the extent that they are recoverable from gross profits.

DAC related to contracts without significant revenue streams from sources other than investment of the policyholder funds, or without significant surrender charges, are amortized using the effective interest method. The effective interest method amortizes the DAC by discounting the future liability cash flows at a break-even rate. The break-even rate is solved such that the present value of future liability cash flows is equal to the net liability at the inception of the contract.

Interest Receivable

Interest receivable primarily consists of accrued interest on available-for-sale securities.

Reinsurance

The Company assumes insurance and investment contracts under coinsurance, funds withheld and modified coinsurance ("modco"). The Company follows reinsurance accounting for transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To meet risk transfer requirements, a reinsurance agreement must transfer insurance risk arising from uncertainties about both underwriting and timing risks. Assets and liabilities assumed under coinsurance, funds withheld, or modco are presented gross on the balance sheets.

Insurance Reserves

Insurance reserves relating to funding agreements, are accounted for as deposits and established at account value. The Company has accounted for its reinsurance contracts in accordance with Financial Accounting Standards Board ("FASB") ASC Topic 720 using the deposit method of accounting. At inception, the deposit liability is measured based on consideration paid or received, less any explicitly identified premiums or fees to be retained by the insurer or reinsurer. The amount of the liability and any balances receivable from or payable to the cedent is adjusted at each reporting date to reflect any amounts accrued in terms of the underlying reinsurance treaty.

Insurance reserves relating to deferred annuities, are accounted for in accordance with Financial Accounting Standards Board ("FASB") ASC Topic 944 using investment contract accounting accounting. At inception, the deferred annuity reserve is measured based on consideration paid or received, less any explicitly identified premiums or fees to be retained by the insurer or reinsurer. The amount of the reserves and any balances receivable from or payable to the cedent is adjusted at each reporting date to reflect the underlying deferred annuity contract values.

On December, 31 2021, the Company entered into a reinsurance agreement with an affiliate (refer to Note K- Related Party Transactions) where some of the insurance liabilities reinsured related to fixed indexed annuities. Insurance reserves relating to fixed indexed annuities are accounted for by bifurcating each FIA contract into a host contract and an embedded derivative and valuing both pieces separately. At issue, future benefits are projected using best estimate liability assumptions in terms of policy holder behavior and indexed interest growth (projected benefits). In addition, a separate benefits projection is done which uses best estimate liability assumptions and contract guarantees (guaranteed benefits). Both quantities are then present valued and the difference between these two quantities represents the initial embedded derivative. Then the host contract value is set such that host contract plus embedded derivative equals the initial account value. At subsequent valuation periods the host contract is accreted at a rate (determined at issue) such that it will grow to the guaranteed maturity value at policy maturity. In addition, the embedded derivative value is recalculated at each valuation date using updated market inputs including initial option values and discounting curves. The combination of the accrued host contract value and the valuation date specific embedded derivative value is the GAAP benefit liability reserve in periods beyond issue.

Deferred Profit Liabilities

At inception of block reinsurance transactions, the excess of the assets received over the sum of the reserves reinsured and ceding commission is deferred and recognized as a deferred profit liability ("DPL"). The DPL for interest-sensitive, investment-type contracts is amortized using the effective interest method. The effective interest method is based on assumptions using accepted actuarial methods. Amortization is recorded in income from reinsurance within the statements of operations and comprehensive (loss) income.

Income Taxes

The Company, as a Bermuda company, is not subject to U.S. federal or state income tax as a separate entity. Under the laws of Bermuda, there is no income, estate, sales or other Bermudian taxes payable by the Company. In the event that taxes are levied, the Company has received an undertaking from the Bermuda government exempting it from all taxes until March 31, 2035.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases. The guidance requires the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The guidance retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under previous GAAP. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly from previous GAAP. This new guidance is effective for fiscal years beginning after December 15, 2021. This change in accounting standards will have an immaterial impact on financial results.

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. This guidance is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the financial statements.

NOTE C - AVAILABLE-FOR-SALE SECURITIES, AT FAIR VALUE

As of December 31, 2021, the Company did not own any available-for-sale securities. The cost, gross unrealized gains, gross unrealized losses and fair value of available-for-sale securities are as follows as of December 31, 2020 (U.S. dollars in thousands):

| December 31, 2020 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Mortgage-Backed Securities | $ 12,846 | $ 30 | $ (341) | $ 12,535 |
| Total | $ 12,846 | $ 30 | $ (341) | $ 12,535 |

The unrealized losses on available-for-sale securities at December 31, 2020 relate primarily to changes in market interest rates, credit spreads and other external market factors. As of December 31, 2020, the Company held five securities that were in an unrealized loss position. None of the securities in the unrealized loss position mentioned above were in an unrealized loss position for more than 12 months. As of December 31, 2020, the Company had not recorded OTTI for any of the AFS securities. As of December 31, 2020, the available-for-sale-securities had contractual maturities beyond five years.

As of December 31, 2020, the Company’s fixed maturity securities holdings were approximately $12.5 million. The following tables set forth certain information regarding the investment ratings of the Company's fixed maturity securities portfolio as of December 31, 2020. Investment ratings are obtained from Moody's, Fitch, Standard & Poor's or other nationally recognized statistical rating organizations approved by the National Association of Insurance Commissioners ("NAIC") for each investment security (U.S. dollars in thousands):

| December 31, 2020 | Amortized Cost | % of Total | Fair Value | % of Total |
|---|---|---|---|---|
| AAA | $ — | — % | $ — | — % |
| AA | — | — % | — | — % |
| A | 12,766 | 99.38 % | 12,465 | 99.44 % |
| BBB | 80 | 0.62 % | 71 | 0.56 % |
| BB | — | — % | — | — % |
| B | — | — % | — | — % |
| Not Rated | — | — % | — | — % |
| Total AFS securities | $ 12,846 | 100.00 % | $ 12,535 | 100.00 % |

NOTE D - FUNDS WITHHELD ASSET

At December 31, 2021, the Company's funds withheld assets were comprised of five agreements, four of which relate to reinsurance and retroceded arrangements with an affiliated insurer under common control, Oceanview Life and Annuity Company, rated “A-” by A.M. Best. See NOTE K- Related Party Transactions for further details. Effective December 2020, the Company entered into a 100% coinsurance funds withheld transaction relating to a deferred annuity block with a cedent that is rated "A+" by A.M. Best.

At December 31, 2021, the funds withheld asset was comprised of the following underlying assets (U.S. dollars in thousands):

| | Total | % of Total |
|---|---|---|
| Residential mortgage loans | $ 220,396 | 10.96 % |
| Commercial mortgage loans | 477,465 | 23.74 % |
| Preferred shares | 55,054 | 2.74 % |
| US corporate bonds | 594,517 | 29.56 % |
| Municipal bonds | 41,045 | 2.04 % |
| Alternatives/equity | 13,018 | 0.65 % |
| Non-Agency MBS | 550,743 | 27.38 % |
| US treasuries | 14,109 | 0.70 % |
| Cash | 52,828 | 0.62 % |
| Receivable | (832) | 1.96 % |
| Embedded derivative | (7,074) | (0.35)% |
| | $ 2,011,269 | 100.00 % |

At December 31, 2020, the funds withheld asset was comprised of the following underlying assets (U.S. dollars in thousands):

| | | Total | % of Total |
|---|---|---|---|
| Residential mortgage loans | $ | 103,912 | 5.67 % |
| Commercial mortgage | | 61,950 | 3.38 % |
| Preferred shares | | 8,584 | 0.47 % |
| US corporate bonds | | 660,769 | 36.02 % |
| Municipal bonds | | 252,050 | 13.74 % |
| Agency MBS | | 377,573 | 20.58 % |
| Non-Agency MBS | | 90,150 | 4.91 % |
| US treasuries | | 104,795 | 5.71 % |
| Cash | | 144,123 | 7.86 % |
| Receivable | | 22,040 | 1.20 % |
| Embedded derivative | | 8,319 | 0.45 % |
| | $ | 1,834,265 | 100.00 % |

NOTE E - NET INVESTMENT INCOME

The major sources of net investment income net of fees and expenses in the accompanying statements of operations and comprehensive (loss) income are as follows (U.S. dollars in thousands):

| | | December 31, 2021 | | December 31, 2020 |
|---|---|---|---|---|
| Interest earned on cash and securities | $ | 74 | $ | 2,320 |
| Net amortization of premiums and accretion of discounts on securities | | (8) | | 121 |
| Interest earned on loans | | — | | 560 |
| Other income | | 30 | | 115 |
| Gross investment income | | 96 | | 3,116 |
| Investment expenses | | (1,479) | | (286) |
| Net investment (loss) income, net of | $ | (1,383) | $ | 2,830 |

## NOTE F - NET REALIZED INVESTMENT LOSS

Details underlying net investment loss reported in the accompanying statements of operations and comprehensive (loss) income as follows (U.S. dollars in thousands):

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Realized (loss) gains on securities | $ (160) | $ 3,731 |
| Realized loss on loans | — | (5,306) |
| Net investment loss | $ (160) | $ (1,575) |

## NOTE G - FINANCIAL DERIVATIVE INSTRUMENTS

The Company entered into derivative agreements with the intent to hedge against interest rate fluctuations. At December 31, 2021 and 2020, the Company had not elected to designate any derivatives for hedge accounting under ASC 815, *Derivatives and Hedging*. Derivatives are reported at fair value. Changes in fair value are included in derivative (loss) gain, net in the statements of operations and comprehensive (loss) income. The Company's derivative activity is subject to its overall risk management policies and procedures. The Company reports all derivative balances and related cash collateral subject to enforceable master netting arrangements on a gross basis within the balance sheets. The objectives, strategies, and underlying risks for the primary derivative instruments held by the Company are presented below.

### Futures Contracts

Eurodollar futures are exchange traded futures contracts which provide protection against fluctuations in short-term U.S. dollar interest rates. Eurodollars are U.S. dollars deposited in commercial banks outside the United States. Eurodollar futures prices reflect market expectations for interest rates on three-month Eurodollar deposits for specified dates in the future. Futures contracts are settled in cash upon expiration. Upon entering into such contracts, the Company is required to pledge to the broker an amount of cash equal to the minimum "initial margin" requirements of the relevant exchange. Pursuant to the contracts, the Company agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in the value of the contracts. When the contracts are closed, the Company records a realized gain or loss equal to the difference between the value of the contracts at the time they were opened and the value at the time they were closed. Any unrealized appreciation or depreciation recorded is simultaneously reversed. The use of futures transactions involves the risk of an imperfect correlation in the movements in the price of futures contracts and interest rates.

### Interest Rate Swaps

An interest rate swap agreement is a derivative contract between two parties in which one stream of future interest payments is exchanged for another based on a specified notional principal amount. The Company entered into pay fixed-receive variable interest rate swap agreements with the intent to hedge its exposure to interest rate risk. In connection with these agreements, cash collateral is posted in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default. Liquidation payments made or received are recorded as realized gains or losses in the statements of operations and comprehensive (loss) income upon termination or maturity of the swap. Net periodic payments received or paid by the Company are included as part of realized gains or losses on the statements of operations and comprehensive (loss) income. Entering into interest rate swap agreements involves market risk related to unfavorable changes in interest rates.

The following table presents the notional amount and fair value of derivative instruments at December 31, 2021 and 2020 (U.S. dollars in thousands):

| | December 31, 2021 | | |
|---|---|---|---|
| | Net Notional | Fair Value | |
| **Instrument** | Value | Assets | Liabilities |
| **Interest rate contracts** | | | |
| Eurodollar futures | $ (551,000) | $ — | $ (1,018) |
| Bond futures | (36,500) | 556 | — |
| Great British Pound futures | 10,905 | — | (262) |
| Interest rate swaps | 9,063 | 150 | — |
| | $ (567,532) | $ 706 | $ (1,280) |

| | December 31, 2020 | | |
|---|---|---|---|
| | Net Notional | Fair Value | |
| **Instrument** | Value | Assets | Liabilities |
| **Interest rate contracts** | | | |
| Forward contracts | $ 2,152 | $ 11 | $ — |
| Eurodollar futures | (906,000) | 348 | (245) |
| Interest rate swaps | 31,063 | 1,290 | (1,170) |
| | $ (872,785) | $ 1,649 | $ (1,415) |

The effect of derivative instruments on the statements of operations and comprehensive (loss) income for years ended December 31, 2021 and 2020 is as follows (U.S. dollars in thousands):

| | December 31, 2021 | |
|---|---|---|
| **Instrument** | Realized Gain (Loss) | Unrealized Gain (Loss) |
| **Interest rate contracts** | | |
| Forward contracts | $ (57) | $ (11) |
| Eurodollar futures | (3,456) | (1,072) |
| Interest rate swaps | 1,076 | (1,150) |
| | $ (2,437) | $ (2,233) |

| | December 31, 2020 | |
|---|---|---|
| **Instrument** | Realized Gain (Loss) | Unrealized Gain (Loss) |
| **Interest rate contracts** | | |
| Forward contracts | $ 1,195 | $ (106) |
| Eurodollar futures | 2,177 | 366 |
| Interest rate swaps | (698) | 1,305 |
| | $ 2,674 | $ 1,565 |

## NOTE H - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. Investments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values as follows:

Level 1 - Valuation is based on unadjusted quoted prices in active markets for identical assets and liabilities that are accessible at the reporting date.

Level 2 - Valuation is determined from pricing inputs that are other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. Observable inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Valuation is based on unobservable inputs that are significant to the fair value measurement and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value generally require significant management judgment or estimation.

The balance of assets and liabilities measured at fair value as of December 31, 2021 is as follows (U.S. dollars in thousands):

| **Assets** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Funds withheld asset - embedded derivative | $ 394 | $ (5,721) | $ (1,747) | $ (7,074) |
| Bond futures | 556 | — | — | 556 |
| Interest rate swaps | — | 150 | — | 150 |
| **Total assets at fair value** | $ 950 | $ (5,571) | $ (1,747) | $ (6,369) |

| **Liabilities** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Great British Pound futures | 262 | — | — | 262 |
| Eurodollar futures | 1,018 | — | — | 1,018 |
| FIA embedded derivative | — | — | 14,435 | 14,435 |
| **Total liabilities at fair value** | $ 1,280 | — | 14,435 | $ 15,715 |

The balance of assets measured at fair value as of December 31, 2020 is as follows. (U.S. dollars in thousands):

| **Assets** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale securities | $ — | $ — | $ 12,535 | $ 12,535 |
| Funds withheld asset - embedded derivative | 601 | 5,293 | 2,425 | 8,319 |
| Forward contracts | — | 11 | — | 11 |
| Eurodollar futures | 348 | — | — | 348 |
| Interest rate swaps | — | 1,290 | — | 1,290 |
| **Total assets at fair value** | $ 949 | $ 6,594 | $ 14,960 | $ 22,503 |

| **Liabilities** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Eurodollar futures | $ 245 | $ — | $ — | $ 245 |
| Interest rate swaps | 1,170 | — | — | 1,170 |
| **Total liabilities at fair value** | $ 1,415 | $ — | $ — | $ 1,415 |

The following summarizes the quantitative inputs and assumptions used for items categorized as Level 3 of the fair value hierarchy as of December 31, 2021 and 2020 (U.S. dollars in thousands):

| | Fair Value | | | | Weighted Average | |
|---|---|---|---|---|---|---|
| Description | 2021 | 2020 | Valuation Technique | Unobservable Input | 2021 | 2020 |
| Available-for-sale securities | $ — | $ 12,535 | Quotes from broker-dealers | Indicative prices received from broker-dealers | | |
| Funds withheld asset - embedded derivative (resi loan portfolios) | $ (3,236) | $ 1,739 | Discounted cash flows | Constant prepayment rate | 19.60 % | 27.00 % |
| | | | | Probability of default | 1.50 % | 2.33 % |
| | | | | Loss severity | 47.10 % | 49.92 % |
| Funds withheld asset - embedded derivative (small balance commercial loan portfolios) | $ (502) | $ — | Discounted cash flows | Constant prepayment rate | 9.40 % | — % |
| | | | | Probability of default | 7.91 % | — % |
| | | | | Loss severity | 36.98 % | — % |
| Funds withheld asset - embedded derivative (large balance commercial loan portfolios) | $ 1,548 | $ — | Weighted average credit spread | | 526 | 0 |
| Funds withheld asset - embedded derivative (large balance commercial loan portfolios) | $ 443 | $ — | Weighted average credit spread | | 426 | 0 |
| Funds withheld asset - embedded derivative (structured securities) | $ — | $ 686 | Quotes from broker-dealers | Indicative prices received from broker-dealers | | |
| Insurance reserves - embedded derivative | $ 14,435 | $ — | Weighted Average | Option value | 3.56 % | — % |
| | | | | Option budget | 2.60 % | — % |
| | | | | Surrender rate | 3 % | — % |

*Transfers between levels*

At December 31, 2021, the Company's investment manager had increased its use of pricing services for determining fair value of securities; these pricing services generally provide fair value based on directly or indirectly observable inputs, with the result that a greater portion of the Company's assets were categorized as Level II at December 31, 2021 compared to December 31, 2020. All non-agency residential mortgage-backed securities, commercial mortgage-backed securities, and other structured securities were transferred from Level III at December 31, 2020 to Level II at December 31, 2021.

For the year ended December 31, 2020, there were no transfers between levels.

*Purchases of fair value assets*

For the year ended December 31, 2021 the Company did not purchase any assets classified as Level 3 fair value. For the year ended December 31, 2020 the Company purchased $0.67 million in assets classified as Level 3 fair value.

*Fair value of funds withheld asset*. The Company's funds withheld asset consists of arrangements with an unaffiliated insurer and an affiliated insurer (refer to Note K- Related Party Transactions). Under these arrangements, the Company assumed via reinsurance certain insurance reserves of the above-mentioned insurers with premiums paid by the insurers withheld under provisions of the reinsurance agreements. The withheld premium is invested in accordance with the respective reinsurance treaties. The Company carries the funds withheld asset at fair value based on the fair value of the underlying assets.

## NOTE I - DEFERRED ACQUISITION COSTS

The following represents a roll forward of the Company's eligible DAC (U.S. dollars in thousands):

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Balance at the beginning of year | $ 189 | $ 319 |
| Additions | 16,571 | — |
| Amortization | (47) | (130) |
| Balance at the end of year | $ 16,714 | $ 189 |

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

| Year ended December 31 | | Expected Amortization |
|---|---|---|
| **2022** | $ | 2,238 |
| **2023** | | 2,161 |
| **2024** | | 2,079 |
| **2025** | | 1,939 |
| **2026** | | 1,741 |
| **Thereafter** | | 6,555 |
| | $ | 16,714 |

NOTE J - DEFERRED PROFIT LIABILITY

The following summarizes a roll-forward of deferred profit liabilities (U.S. dollars in thousands):

| | | December 31, 2021 | | December 31, 2020 |
|---|---|---|---|---|
| Balance at the beginning of year | $ | 22,891 | $ | — |
| Additions | | 7,376 | | 22,940 |
| Amortization | | (3,613) | | (49) |
| Balance at the end of year | $ | 26,654 | $ | 22,891 |

NOTE K - RELATED PARTY TRANSACTIONS

The Company has various intercompany agreements with affiliates of Bayview for the provision of various services including: investment management, executive and administrative oversight, legal, data processing, bookkeeping, service operations, internal audit and other services.

Affiliate Expenses

The Management Company provides investment advice and directs the investments in Portfolio Assets. The Management Company is paid a fixed asset management fee for its services, payable in advance on the first day of each month, equal to the sum of (i) 0.40% of the aggregate market value of the loans owned by the Company, (ii) 0.35% of the aggregate market value of the structured products owned by the Company and (iii) 0.10% of the aggregate market value of any other investment assets owned by the Company, in each case measured as of the beginning of such month. The Management Company may, in its sole discretion, reduce or waive the asset management fee for any period of time. For the years ended December 31, 2021 and 2020, the Company incurred asset management fees of $1.5 million and $0.3 million, respectively.

Retrocession and Reinsurance Agreements

The Company has entered into three funds withheld reinsurance retrocession agreements and one funds withheld reinsurance agreement with Oceanview Life and Annuity Company ("OVLAC"), an insurance company domiciled in the State of Colorado. OVLAC is rated “A-“ by A.M. Best. OVLAC is an affiliate of the Company. At December 31, 2021, and 2020 the reinsurance funds withheld account amounted to $903.8 million and $684.8 million, respectively. Refer to NOTE D for further details.

Due to Related Parties

The Company obtained a loan amounting to $42 million from its parent company, Oceanview Holdings, Ltd in December 2020. The loan is payable by December 17, 2025. All interest on the unpaid principal balance due shall accrue at a fixed rate of 0.72%. For the entire term of this loan, all interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

## NOTE L - STOCKHOLDER’S EQUITY

*Authorized and issued share capital*
The authorized and issued share capital of the Company is $250,000 divided into 250,000 ordinary shares, par value $1 each.

*Additional paid in capital*
During the years ended December 31, 2021 and 2020, the Company received $2.4 million and $20.0 million, respectively, by way of additional contributions from its stockholder.

During the years ended December 31, 2021 and 2020 the Company distributed $0 million and $45 million, respectively, in capital back to its stockholder in accordance to a Section 31(C) approval obtained from the BMA.

*Accumulated other comprehensive income (loss)*
Accumulated other comprehensive income (loss) includes the net unrealized gain (loss) on investment securities available-for-sale.

## NOTE M - RISKS AND UNCERTAINTIES

In the normal course of business, the Company encounters economic and regulatory risks which are described below.

Regulatory Risk

The Company’s business plans require it to maintain its license as a Class E insurer in Bermuda. Failure to maintain this license in good standing would adversely affect the Company. Changes in laws and regulations to comply with existing laws and regulations also could subject the Company to penalties, unanticipated costs or interruption to the Company's operations. As a Class E insurer, the Company is subject to Bermuda’s Insurance Act 1978 (“Bermuda Insurance Act”) as well as other applicable

Bermuda law and regulations. Among other requirements, Class E insurers must at all times maintain a Minimum Margin of Solvency ("MMS") and an Enhanced Capital Requirement ("ECR") in accordance with the Bermuda Insurance Act. Class E insurers must maintain an MMS that is the greater of: (1) $8 million; (2) 2% of the first $500 million of assets plus 1.5% of applicable assets above $500 million; or (3) 25% of the ECR. The ECR is based on an economic balance sheet ("EBS") framework and a system, the Bermuda Solvency Capital Requirement ("BSCR"), that is a form of risk-based capital. In addition to the MMS requirement, a Class E insurer must maintain available statutory economic capital and surplus that equals or exceeds its ECR. The Company was in compliance with such laws and regulations as of December 31, 2021 and 2020.

Investments in Mortgage-Backed Securities

Credit Risk - Credit-related risk on mortgage-backed securities arises from losses due to delinquencies and defaults by the borrowers in payments on the underlying mortgage loans and breaches by originators and servicers of their obligations under the underlying documentation, pursuant to which the mortgage-backed securities are issued. The rate of delinquencies and defaults on mortgage loans and the aggregate amount of the resulting losses will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located, the level of the borrower's equity in the mortgaged property, and the individual financial circumstances of the borrower.

Prepayment Risk - Mortgage-backed securities are susceptible to prepayment risk. Except in the case of certain types of mortgage-backed securities, the mortgage loans underlying mortgage-backed securities generally do not contain prepayment penalties. A reduction in market interest rates will increase the likelihood of prepayments on the related mortgage-backed securities assets, resulting in a reduction in yield to maturity for most holders of such securities. In the case of certain home equity loan securities and certain types of mortgage-backed securities, even though the underlying mortgage loans often contain prepayment premiums, such prepayment premiums may not be sufficient to discourage borrowers from prepaying their mortgage loans in the event of a reduction in market interest rates, resulting in a reduction in the yield to maturity for holders of the related mortgage-backed securities.

Interest Rate Risk - The rate of interest payable on certain mortgage-backed securities may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans. As a result of this cap, the return to the holder of such mortgage-backed securities is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest. In general, early prepayments will have a greater negative impact on the yield to the holder of such mortgage-backed securities.

Concentration Risk - Concentration of credit risk refers to the risk that, if a significant portion of the Company's investment portfolio (including the collateral of securities) relate to borrowers in a specific geographical area or industry or on the security of a specific form of collateral, the Company's investments may experience disproportionately high levels of default and losses if those borrowers, or the value of such type of collateral, is adversely affected by economic or other factors that are particularly applicable to such borrowers or collateral.

NOTE N - COMMITMENTS AND CONTINGENCIES

The Company is not involved in any claims or legal actions as at April 25, 2022. Management is not aware of any claims or legal actions that would have a material adverse effect on the Company's financial position, results of operations or cash flows.

NOTE O - SUBSEQUENT EVENTS

The Company has evaluated events and transactions that occurred during the period from the balance sheet date through April 25, 2022, the date the Company’s financial statements were available to be issued.  Unless otherwise indicated, all information included in these financial statements is as of December 31, 2021.