

Kemper Bermuda Ltd.

Condensed General Purpose Financial Statements

As at and for the Year Ended December 31, 2022

Table of Contents

<u>Content</u>	<u>Page</u>
Independent Auditor's Report	1
Condensed Balance Sheet	4
Condensed Statement of Income	9
Condensed Statement of Capital and Surplus	13
Part I. Notes to the Condensed General Purpose Financial Statements	14
Part II. Notes to the Condensed General Purpose Statutory Statement of Capital and Surplus	21
Part III. Notes to the Condensed General Purpose Statutory Balance Sheet	22
Part IV. Notes to the Condensed Statutory Statement of Income	25

INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Kemper Bermuda Ltd.

Opinions

We have audited the condensed financial statements of Kemper Bermuda Ltd. (the "Company"), which comprise the condensed balance sheet and condensed statement of capital and surplus as of December 31, 2022, and the related condensed statement of income for the year then ended, including the related notes (collectively referred to as the "condensed financial statements").

Unmodified opinion on regulatory basis of accounting

In our opinion, the accompanying condensed financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations for the year then ended in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to the condensed general purpose financial Statements (the "Legislation").

Adverse opinion on accounting principles generally accepted in the United States of America

In our opinion, because of the significance of the matter described in the *Basis for adverse opinion on U.S. generally accepted accounting principles* section of our report, the condensed financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2022, or the results of its operations for the year then ended.

Basis for Opinions

We conducted our audit 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 condensed 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for adverse opinion on U.S. generally accepted accounting principles

As described in Note 3 to the condensed financial statements, the condensed financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Bermuda Monetary Authority.

The effects on the condensed financial statements of the variances between the regulatory basis of accounting described in Note 3 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Condensed Financial Statements

Management is responsible for the preparation and fair presentation of the condensed financial statements in accordance with the financial reporting provisions of the Legislation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the condensed financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed 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 condensed financial statements are issued.

Auditor's Responsibilities for the Audit of the Condensed Financial Statements

Our objectives are to obtain reasonable assurance about whether the condensed 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 condensed 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 condensed 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 condensed 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 condensed 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.

Deloitte + Touche LLP

April 27, 2023

CONDENSED BALANCE SHEET

Kemper Bermuda Ltd.

As at **December 31, 2022**

expressed in ['000s] **United States Dollars**

		2022
LINE No.		
ASSETS		
1	CASH AND CASH EQUIVALENTS	\$ 1,786
2	QUOTED INVESTMENTS:	
(a)	Bonds and Debentures	
	i. Held to maturity	—
	ii. Other	—
(b)	Total Bonds and Debentures	—
(c)	Equities	
	i. Common stocks	—
	ii. Preferred stocks	—
	iii. Mutual funds	—
(d)	Total equities	—
(e)	Other quoted investments	—
(f)	Total quoted investments	—
3	UNQUOTED INVESTMENTS:	
(a)	Bonds and Debentures	
	i. Held to maturity	—
	ii. Other	—
(b)	Total Bonds and Debentures	—
(c)	Equities	
	i. Common stocks	—
	ii. Preferred stocks	—
	iii. Mutual funds	—
(d)	Total equities	—
(e)	Other unquoted investments	—
(f)	Total unquoted investments	—
4	INVESTMENTS IN AND ADVANCES TO AFFILIATES	
(a)	Unregulated entities that conduct ancillary services	—
(b)	Unregulated non-financial operating entities	—
(c)	Unregulated financial operating entities	—
(d)	Regulated non-insurance financial operating entities	—
(e)	Regulated insurance financial operating entities	—
(f)	Total investments in affiliates	—

CONDENSED BALANCE SHEET

Kemper Bermuda Ltd.

As at **December 31, 2022**expressed in ['000s] **United States Dollars**

(g)	Advances to affiliates	—
(h)	Total investments in and advances to affiliates	—
5	INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE:	
(a)	First liens	—
(b)	Other than first liens	—
(c)	Total investments in mortgage loans on real estate	—
6	POLICY LOANS	233,502
7	REAL ESTATE:	
(a)	Occupied by the company (less encumbrances)	—
(b)	Other properties (less encumbrances)	—
(c)	Total real estate	—
8	COLLATERAL LOANS	—
9	INVESTMENT INCOME DUE AND ACCRUED	—
10	ACCOUNTS AND PREMIUMS RECEIVABLE:	
(a)	In course of collection	42,963
(b)	Deferred - not yet due	—
(c)	Receivables from retrocessional contracts	—
(d)	Total accounts and premiums receivable	42,963
11	REINSURANCE BALANCES RECEIVABLE:	
(a)	Foreign affiliates	—
(b)	Domestic affiliates	—
(c)	Pools & associations	—
(d)	All other insurers	—
(e)	Total reinsurance balance receivable	—
12	FUNDS HELD BY CEDING REINSURERS	2,396,482

CONDENSED BALANCE SHEET

Kemper Bermuda Ltd.

As at **December 31, 2022**expressed in ['000s] **United States Dollars**

13	SUNDRY ASSETS:	
(a)	Derivative instruments	—
(b)	Segregated accounts companies - long-term business - variable annuities	—
(c)	Segregated accounts companies - long-term business - other	—
(d)	Segregated accounts companies - general business	—
(e)	Deposit assets	—
(f)	Deferred acquisition costs	312,745
(g)	Net receivables for investments sold	—
(h)	1-Net deferred tax asset	37,031
(i)	Other Sundry Assets (Not Applicable)	—
(j)	Other Sundry Assets (Not Applicable)	—
(k)	Total sundry assets	<u>349,776</u>
14	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS	
(a)	Letters of credit	—
(b)	Guarantees	—
(c)	Other instruments	—
(e)	Total letters of credit, guarantees and other instruments	<u>—</u>
15	TOTAL	<u><u>3,024,509</u></u>
	TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS	
16	UNEARNED PREMIUM RESERVE	
(a)	Gross unearned premium reserves	—
(b)	Less: Ceded unearned premium reserve	
	i. Foreign affiliates	—
	ii. Domestic affiliates	—
	iii. Pools & associations	—
	iv. All other insurers	—
(c)	Total ceded unearned premium reserve	<u>—</u>
(d)	Net unearned premium reserve	<u>—</u>

CONDENSED BALANCE SHEET

Kemper Bermuda Ltd.

As at **December 31, 2022**expressed in ['000s] **United States Dollars**

17	LOSS AND LOSS EXPENSE PROVISIONS:	
(a)	Gross loss and loss expense provisions	—
(b)	Less : Reinsurance recoverable balance	
	i. Foreign affiliates	—
	ii. Domestic affiliates	—
	iii. Pools & associations	—
	iv. All other reinsurers	—
(c)	Total reinsurance recoverable balance	—
(d)	Net loss and loss expense provisions	—
18	OTHER GENERAL BUSINESS INSURANCE RESERVES	—
19	TOTAL GENERAL BUSINESS INSURANCE RESERVES	—
	LONG-TERM BUSINESS INSURANCE RESERVES	
20	RESERVE FOR REPORTED CLAIMS	27,927
21	RESERVE FOR UNREPORTED CLAIMS	14,966
22	POLICY RESERVES - LIFE	2,751,673
23	POLICY RESERVES - ACCIDENT AND HEALTH	—
24	POLICYHOLDERS' FUNDS ON DEPOSIT	4,172
25	LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS	—
26	OTHER LONG-TERM BUSINESS INSURANCE RESERVES	—
27	TOTAL LONG-TERM BUSINESS INSURANCE RESERVES	
(a)	Total Gross Long-Term Business Insurance Reserves	2,798,738
(b)	Less: Reinsurance recoverable balance on long-term business	
	(i) Foreign Affiliates	—
	(ii) Domestic Affiliates	—
	(iii) Pools and Associations	—
	(iv) All Other Insurers	—
(c)	Total Reinsurance Recoverable Balance	—
(d)	Total Net Long-Term Business Insurance Reserves	2,798,738

CONDENSED BALANCE SHEET

Kemper Bermuda Ltd.

As at **December 31, 2022**expressed in f'000s | **United States Dollars**

OTHER LIABILITIES		
28	INSURANCE AND REINSURANCE BALANCES PAYABLE	—
29	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE	5,832
30	LOANS AND NOTES PAYABLE	—
31	(a) INCOME TAXES PAYABLE	45,147
	(b) DEFERRED INCOME TAXES	—
32	AMOUNTS DUE TO AFFILIATES	—
33	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	—
34	FUNDS HELD UNDER REINSURANCE CONTRACTS:	—
35	DIVIDENDS PAYABLE	—
36	SUNDRY LIABILITIES:	
(a)	Derivative instruments	—
(b)	Searedated accounts companies	—
(c)	Deposit liabilities	—
(d)	Net payable for investments purchased	—
(e)	1-Net deferred gain, coinsurance with UICA	137,729
(f)	Other sundry liabilities (Not applicable)	—
(a)	Other sundry liabilities (Not applicable)	—
(h)	Total sundry liabilities	<u>137,729</u>
37	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:	
(a)	Letters of credit	—
(b)	Guarantees	—
(c)	Other instruments	—
(d)	Total letters of credit, guarantees and other instruments	<u>—</u>
38	TOTAL OTHER LIABILITIES	188,708
39	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	2,987,446
	CAPITAL AND SURPLUS	
40	TOTAL CAPITAL AND SURPLUS	<u>37,063</u>
41	TOTAL	<u>3,024,509</u>

CONDENSED STATEMENT OF INCOME

Kemper Bermuda Ltd.

For the Year Ended:
expressed in ['000s]**December 31, 2022**
United States Dollars**2022**

LINE No.

GENERAL BUSINESS UNDERWRITING INCOME

1	GROSS PREMIUMS WRITTEN	
	(a) Direct gross premiums written	—
	(b) Assumed gross premiums written	—
	(c) Total gross premiums written	—
2	REINSURANCE PREMIUMS CEDED	—
3	NET PREMIUMS WRITTEN	—
4	INCREASE (DECREASE) IN UNEARNED PREMIUMS	—
5	NET PREMIUMS EARNED	—
6	OTHER INSURANCE INCOME	—
7	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	—
	GENERAL BUSINESS UNDERWRITING EXPENSES	
8	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED	—
9	COMMISSIONS AND BROKERAGE	—
10	TOTAL GENERAL BUSINESS UNDERWRITING	—
11	NET UNDERWRITING PROFIT (LOSS) -	—
	LONG-TERM BUSINESS INCOME	
12	GROSS PREMIUMS AND OTHER	
	(a) Direct gross premiums and other considerations	—
	(b) Assumed gross premiums and other considerations	79,709
	(c) Total gross premiums and other considerations	79,709

CONDENSED STATEMENT OF INCOME

Kemper Bermuda Ltd.

For the Year Ended: **December 31, 2022**expressed in ['000s] **United States Dollars**

13	PREMIUMS CEDED	—
14	NET PREMIUMS AND OTHER CONSIDERATIONS:	
	(a) Life	79,709
	(b) Annuities	—
	(c) Accident and health	—
	(d) Total net premiums and other considerations	<u>79,709</u>
15	OTHER INSURANCE INCOME	—
16	TOTAL LONG-TERM BUSINESS INCOME	<u>79,709</u>
	LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES	
17	CLAIMS - LIFE	37,313
18	POLICYHOLDERS' DIVIDENDS	—
19	SURRENDERS	8,320
20	MATURITIES	1,067
21	ANNUITIES	—
22	ACCIDENT AND HEALTH BENEFITS	—
23	COMMISSIONS	22,733
24	OTHER	210
25	TOTAL LONG-TERM BUSINESS DEDUCTIONS	<u>69,643</u>
26	INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES):	
	(a) Life	14,060
	(b) Annuities	—
	(c) Accident and health	—
	(d) Total increase (decrease) in policy reserves	<u>14,060</u>

CONDENSED STATEMENT OF INCOME

Kemper Bermuda Ltd.

As at

December 31, 2022

expressed in ['000s]

United States Dollars

27	TOTAL LONG-TERM BUSINESS EXPENSES	83,703
28	NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS	(3,994)
29	COMBINED NET UNDERWRITING RESULTS THE UNDERNOTED ITEMS	(3,994)
	UNDERNOTED ITEMS	
30	COMBINED OPERATING EXPENSE	
	(a) General and administration	11,684
	(b) Personnel cost	12,891
	(c) Other	—
	(d) Total combined operating expenses	<u>24,575</u>
31	COMBINED INVESTMENT INCOME - NET	39,918
32	COMBINED OTHER INCOME (DEDUCTIONS)	1,198
33	COMBINED INCOME BEFORE TAXES	12,547
34	COMBINED INCOME TAXES (IF APPLICABLE):	
	(a) Current	1,258
	(b) Deferred	6,859
	(c) Total	<u>8,117</u>
35	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	4,430
36	COMBINED REALIZED GAINS (LOSSES)	26,633
37	COMBINED INTEREST CHARGES	—
38	NET INCOME	<u>31,063</u>

CONDENSED STATEMENT OF CAPITAL AND SURPLUS

Kemper Bermuda Ltd.

As at **December 31, 2022**

expressed in ['000s] **United States Dollars**

		2022
LINE No.		
1	CAPITAL:	
(a)	Capital Stock	12
	(i) Common Shares	
	authorized 12.000	shares of par
	value \$1.00	each issued and
	fully paid 12.000	shares
	(ii) (A) Preferred shares:	—
	authorized	share of par
	value	each issued and
	fully paid	shares
	aggregate liquidation value for —	
	2022	
	2021	
	(B) Preferred shares issued by a	—
	authorized	share of par
	value	each issued and
	fully paid	shares
	aggregate liquidation value for —	
	2022	
	2021	
	(iii) Treasury Shares	—
	repurchased	share of par
	value	each issued
(b)	Contributed surplus	5.988
(c)	Any other fixed capital	
	(i) Hybrid capital instruments	—
	(ii) Guarantees and others	—
	(iii) Total any other fixed capital	—
(d)	Total Capital	6.000

CONDENSED STATEMENT OF CAPITAL AND SURPLUS

Kemper Bermuda Ltd.

As at **December 31, 2022**

expressed in ['000s] **United States Dollars**

2	SURPLUS:	
(a)	Surplus - Beginning of Year	—
(b)	Add: Income for the year	31,063
(c)	Less: Dividends paid and payable	—
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments	—
(e)	Add (Deduct) change in any other surplus	—
(f)	Surplus - End of Year	<u>31,063</u>
3	MINORITY INTEREST	—
4	TOTAL CAPITAL AND SURPLUS	<u><u>37,063</u></u>

Kemper Bermuda Ltd.
Notes to Condensed General Purpose Financial Statements

As at and for the Year Ended December 31, 2022

(All amounts in thousands U.S. Dollars, except common share amounts and share par value)

1. Organization and Description of Business

Kemper Bermuda Ltd. (“KBL” or “the Company”) was incorporated in Bermuda on March 15, 2022 and licensed as a Class C Insurer by the Bermuda Monetary Authority (“BMA”) on September 16, 2022 under The Insurance Act 1978. The Company is a wholly-owned subsidiary of Kemper Corporation.

2. Nature of Risks by the Insurer

The Company does not have any direct underwriting operations, including underwriting, marketing, or distributing insurance policies.

The Company had executed one coinsurance agreement (“the Coinsurance Agreement”) with United Insurance Company of America (“UICA”), an affiliated company, as the ceding company on September 30, 2022. The Coinsurance Agreement has a retroactive effective date of July 1, 2022.

Under the Coinsurance Agreement, UICA cedes to KBL, and KBL reinsures, on an 80% coinsurance with funds withheld basis, UICA’s liability under any and all past, current and future life contracts (including whole and term life, including associated riders such as waiver of premium and accidental death benefit, along with deferred payment or other annuity type benefits) issued or reinsured by UICA, but excluding any such life contracts reinsured by the Company pursuant to the coinsurance agreement effective June 29, 2020 by and between UICA and Reserve National Insurance Company. The Company is responsible for the investment risk of the funds withheld portfolio and receives 100% of net investment income and realized capital gains and losses from the portfolio. The Funds Withheld Investment Income is explicitly defined as for each accounting period, the investment income in respect of the segregated assets in the funds withheld account, as would be reported by UICA on lines 3 (Net Investment Income) and 34 (Net realized capital gains (losses)) of the Summary of Operations from its United States (“U.S.”) Statutory annual statement, earned and realized on the segregated assets in the funds withheld account during such Accounting Period, without reduction for any interest maintenance reserve (“IMR”) or taxes. The Illinois Department of Insurance approved this Coinsurance Agreement on September 30, 2022. All parties to this coinsurance agreement are under the ultimate control of Kemper Corporation.

The Company does not retrocede any policies it assumes to any other Kemper affiliates or third-party reinsurers.

3. Basis of Presentation

These Condensed General Purpose Financial Statements have been prepared in conformity with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to Condensed General Purpose Financial Statements (the “Legislation”). The Condensed General Purpose Financial Statements are compiled in compliance with accounting principles generally accepted in the United States (“U.S. GAAP”), but are presented in accordance with the reporting requirements of the Legislation which vary in certain respects from U.S. GAAP. The more significant variances are as follows:

Kemper Bermuda Ltd.
Notes to Condensed General Purpose Financial Statements (Continued)

As at and for the Year Ended December 31, 2022

(All amounts in thousands U.S. Dollars, except common share amounts and share par value)

3. Basis of Presentation (Continued)

- A statement of cash flows is not included;
- A statement of comprehensive income is not included;
- The presentation and classification of financial statement line items are in accordance with Schedules IX and XI of the Insurance Account Rules 2016 and differ from the expected presentation and classification under U.S. GAAP; and;
- The notes included in the Condensed General Purpose Financial Statements have been prepared in accordance with Schedule X of the Insurance Account Rules 2016 and exclude certain information required under U.S. GAAP.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Many of these estimates and assumptions are common in the insurance and financial services industries; others are specific to the Company's business and operations. Actual results could differ materially from those estimates and assumptions.

The process of determining whether an investment in the Funds Withheld Portfolio or Contributed Surplus is impaired or recoverable relies on projections of future cash flows, operating results, and market conditions. Projections are inherently uncertain, and, accordingly, actual future cash flows may differ materially from projected cash flows. As a result, the Company's assessment of the impairment of long-lived assets is susceptible to the risk inherent in making such projections.

4. Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents includes certificates of deposit and other fixed maturities that mature within one year from the date of purchase, U.S. Treasury bills, money market mutual funds and overnight interest-bearing accounts. Cash and short-term investments are reported at cost, which approximates fair value.

Policy Loans

Loans to policyholders represents funds loaned to policyholders up to the cash surrender value of the associated insurance policies and are carried at the unpaid principal balances due to the Company from the policyholders. Interest income on policy loans is recognized in Combined Net Investment Income-Net at the contract interest rate when earned. Policy loans are fully collateralized by the cash surrender value of the associated insurance policies. The Company has elected to report any accrued interest owed as part of the policy loan balance instead of accrued investment income at the contract interest rate.

Funds Held by Ceding Reinsurers

In funds withheld arrangements, the investments supporting the reinsurance agreements, and which reflect the consideration that would be paid to the reinsurer for entering into the transaction, are withheld by, and therefore continue to reside on the balance sheet of, the ceding company. These investments also include the due and accrued

Kemper Bermuda Ltd.
Notes to Condensed General Purpose Financial Statements (Continued)

As at and for the Year Ended December 31, 2022

(All amounts in thousands U.S. Dollars, except common share amounts and share par value)

Note 4. Significant Accounting Policies (Continued)

investment income associated with those investments. This creates an obligation for UICA to pay the Company at a later date. The assets in the funds withheld portfolio consist of mostly fixed maturity investments of high credit quality, along with common stock, preferred stock, due and accrued investment income, and other short-term investments.

UICA legally controls and owns all assets for its reinsurance relationship and is responsible for the accounting of the underlying investments that comprise the segregated funds withheld portfolio. All economic rights and obligations on the underlying assets accrue to the Company. The assets are required to be sufficient to meet the associated policyholder obligations with any surplus or shortfall is settled at least quarterly between both companies.

The Company is required to recognize an embedded derivative, at fair value, for the investment performance of the funds withheld portfolio effective July 1, 2022. This is attributable to the economic characteristics and risks of the funds withheld portfolio being not clearly or closely related to the insurance liabilities the Company assumes. Any changes in the embedded derivative are recognized through Combined Realized Gains (Losses) on the Company's Condensed Statement of Income.

An asset is recognized on the Company's Condensed Financial Statements for the performance of the underlying investments in this portfolio at fair market value. This fair value also includes the fair value of the embedded derivative asset or liability, calculated as the cumulative change in unrealized investment position since the Company acquired rights to the funds withheld portfolio on the Coinsurance Agreement's execution date.

Fair Value Measurements

The Company uses a hierarchical framework which prioritizes and ranks the market observability of inputs used in fair value measurements. Market price observability is affected by a number of factors, including the type of asset or liability and the characteristics specific to the asset or liability being measured. Assets and liabilities with readily available, active, quoted market prices or for which fair value can be measured from actively quoted prices generally are deemed to have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The Company classifies the inputs used to measure fair value into one of three levels as follows:

- Level 1 — Quoted prices in an active market for identical assets or liabilities;
- Level 2 — Observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and
- Level 3 — Significant unobservable inputs for the asset or liability being measured.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level of input that is significant to the entire measurement. Such determination requires significant management judgment.

Kemper Bermuda Ltd.
Notes to Condensed General Purpose Financial Statements (Continued)

As at and for the Year Ended December 31, 2022

(All amounts in thousands U.S. Dollars, except common share amounts and share par value)

4. Significant Accounting Policies (Continued)

Sundry Assets- Deferred Policy Acquisition Costs

Costs directly associated with the successful acquisition of business, principally commissions and certain premium taxes and policy issuance costs, are deferred. Costs deferred on traditional life insurance products and other long-duration insurance contracts are primarily amortized over the anticipated premium-paying period of the related policies in proportion to the ratio of the annual premiums to the total premiums anticipated, which is estimated using the same assumptions used in calculating policy reserves.

Sundry Assets- Deferred Income Taxes

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance, if any, is maintained for the portion of deferred income tax assets that the Company does not expect to recover. Increases, if any, in the valuation allowance for deferred income tax assets are recognized as income tax expense. Decreases, if any, in the valuation allowance for deferred income tax assets are generally recognized as income tax benefit. The effect on deferred income tax assets and liabilities of a change in tax law including a change in tax rates is recognized in income from operations in the period in which the change is enacted.

Insurance Reserves

For traditional life insurance products, the reserves for future policy benefits are estimated on the net level premium method using assumptions as of the issue date for mortality, interest, policy lapses and expenses, including provisions for adverse deviations. These assumptions vary by such characteristics as plan, age at issue and policy duration. Mortality assumptions are based on the Company's historical experience and industry standards. Interest rate assumptions principally range from 3% to 7%. Lapse rate assumptions are based on actual and industry experience. Insurance reserves for life insurance products are comprised of reserves for future policy benefits plus an estimate of the Company's liability for unpaid life insurance claims and claims adjustment expenses, which includes an estimate for incurred but not reported ("IBNR") life insurance claims.

Sundry Liabilities- Deferred Gain from Coinsurance with UICA

Upon formal legal execution of the Coinsurance Agreement, the Company is required to recognize a liability as a deferred gain for entering the coinsurance relationship ("assumed cost of reinsurance") with UICA. This gain is based upon the economics governing the treaty's agreed-upon terms. Management has elected to report this balance as a separate sundry liability. This balance is calculated as the sum of all consideration between both parties from the treaty's inception date of July 1, 2022 to its legally enforceable execution date of September 30, 2022.

This deferred gain is amortized into income on a monthly basis over a period of twenty-nine years as part of Combined Other Income (Deductions). This period represents the estimated weighted average life of the net assumed liability cashflow obligations of the Company. This timeframe is subject to periodic reassessment should assumed liabilities change.

Kemper Bermuda Ltd.
Notes to Condensed General Purpose Financial Statements (Continued)

As at and for the Year Ended December 31, 2022

(All amounts in thousands U.S. Dollars, except common share amounts and share par value)

5. Revenue Recognition

a. Investment income

Investment income is recorded on an accrual basis. Net Investment Income, including amortization of purchase premiums and accretion of market discounts, on investments in fixed maturities is recognized as interest over the period that it is earned using the effective yield method. In 2022, the Company earned 100% of its pre-tax investment income from the funds withheld portfolio and any contributed surplus.

The Company reports accrued investment income separately for funds withheld under ceding reinsurers and has elected not to measure an allowance for expected credit losses on accrued investment income. Accrued investment income is written off through impairment losses at the time the issuer of the bond defaults or is expected to default on interest payments.

b. Premiums

Premiums are recorded as collected and reported by UICA. All premium activity assumed by the Company is net of any premium waivers or premium refunds owed back to UICA's policyholders.

c. Commission Income - Not applicable

6. Foreign Exchange Translation- Not applicable

7. Foreign Exchange Control Restrictions affecting assets- Not applicable

8. Material Contingencies or Commitments- Not applicable

9. Defaults relating to principal, interest, sinking fund, or redemption provisions of any securities issued or credit agreement entered into- Not applicable

10. Gross amount of arrears in dividends on preferred cumulative shares and date which those dividends are paid.- Not applicable

11. Loan Amounts to Company Directors or Officers- Not applicable

12. Employee Retirement Benefit Obligations Arising from Service Prior to the End of the Year- Not applicable

13. Fair Value Hierarchy

The following table presents the Company's hierarchy for its Funds Held by Ceding Reinsurers receivable measured at fair value as at December 31, 2022. The fair value measurement policy is discussed in Note 4, Significant Accounting Policies.

Kemper Bermuda Ltd.
Notes to Condensed General Purpose Financial Statements (Continued)

As at and for the Year Ended December 31, 2022

(All amounts in thousands U.S. Dollars, except common share amounts and share par value)

13. Fair Value Hierarchy (Continued)

	Level 1	Level 2	Level 3	Total
December 31, 2022	‘\$000	‘\$000	‘\$000	‘\$000
Funds Held by Ceding Reinsurers	\$213	\$2,273,217	\$66,124	\$2,339,554
Grand Total	\$213	\$2,273,217	\$66,124	\$2,339,554

14. Contractual Maturity of Fixed Maturity and Short-Term Investments

The Company has \$1,786 of its own short-term investments held at amortized cost with maturities less than one year.

15. Related Party Transactions

Effective July 1, 2022, corporate administration services are carried out under a three-year general services agreement between the Company, Infinity Insurance Company, and Merastar Insurance Company (“General Services Agreement”). All parties to this General Services agreement are under the ultimate control of Kemper Corporation. Infinity Insurance Company is domiciled in United States (“U.S.”) State of Indiana and Merastar is domiciled in US State of Illinois. Corporate administration services are comprised of various shared services, including, but not limited to, accounting, treasury, and financial reporting services. This agreement automatically renews in three-year increments, unless the agreement requires re-negotiation by any of the parties.

All transactions between the Company and UICA are considered related party transactions as both entities are under the common control of Kemper Corporation. All transactions, including the quarterly settlement, between these two parties are governed by the terms of the Coinsurance Agreement. The quarterly rebalancing of the funds withheld portfolio owed between both companies are measured using U.S. Statutory Accounting Principles as adopted by the National Association of Insurance Commissioners.

All covered transactions under the General Services Agreement are calculated based upon 80% of the expense reported by UICA. The allocation methodology for shared expenses is consistent with other Kemper Companies and is required to be fair and reasonable in accordance with U.S. Statement of Statutory Accounting Principle Number 25 (“SSAP No. 25”). No profit or mark-up is realized by either party under this agreement.

All transactions between the Company and Kemper Corporation under the Keep Well Agreement (see Part III, Note 14, Letters of Credit, Guarantees, and Other Instruments) are considered related party transactions.

Kemper Bermuda Ltd.
Notes to Condensed General Purpose Financial Statements (Continued)

As at and for the Year Ended December 31, 2022

(All amounts in thousands U.S. Dollars, except common share amounts and share par value)

16. Subsequent Events

The Company has evaluated the effects of events subsequent to December 31, 2022, for recognition and disclosure purposes, through to April 26, 2023, which is the date the Condensed General Purpose Financial Statements were made available to be issued for recognition and disclosure purposes. The following material events were noted that could influence the reader of these Condensed General Purpose Financial Statements:

- As at December 31, 2022 the Company was not in compliance with its minimum margin of solvency ratio as required by the BMA. On March 3, 2023, the Company executed a \$10,000 capital contribution using primarily high-credit quality, non-cash assets under the Keep Well Agreement (as defined in Part III Note 14) to maintain compliance with its required solvency margin.

No other material events occurred which are expected to have a material impact on the Company's operations.

17. Any other information which, in the opinion of the Company's Board of Directors, is required to be disclosed so the financial statements are not misleading.- Not applicable

PART II

Notes to the Condensed General Purpose Statutory Statement of Capital and Surplus

As at and for the Year Ended December 31, 2022

(All amounts in thousands U.S. Dollars, except common share amounts and share par value)

1. Capital Stock

- a. **Paid-Up Share Capital-** As at December 31, 2022, the Company authorized 12,000 common shares of non-voting share capital at a \$1.00 par value. All 12,000 authorized shares were issued at December 31, 2022.

- b. **Contributed Surplus-** As at December 31, 2022, the Company has contributed surplus of \$5,988 representing cash contributions from Kemper Corporation.

2(c). Dividends Paid and Payable- The Company is subject to minimum solvency requirements on its statutory and economic capital that limits its ability to declare and pay dividends.

As of December 31, 2022, the Company's has not authorized or paid any dividends.

PART III

Notes to the Condensed General Purpose Statutory Balance Sheet

As at and for the Year Ended December 31, 2022

(All amounts in thousands U.S. Dollars, except common share amounts and share par value)

1. Cash and Cash Equivalents - As at December 31, 2022, the Company has a cash-equivalents balance of \$1,786 consisting of short-term investments carried at amortized cost, which approximates fair value.

2-5. Not applicable

6. Policy Loans - As at December 31, 2022, the Company has an assumed policy loan balance, including accrued interest, of \$233,502.

7.9.- Not applicable

10. Accounts and Premiums Receivable- As at December 31, 2022, the Company has a total accounts and premium receivable balance of \$42,963 with UICA. This balance also includes the net intercompany position between both entities, inclusive of U.S. GAAP to US statutory reporting differences. This balance primarily relates to the Company's receivable from UICA of \$40,574 resulting from the fourth quarter 2022 settlement of coinsurance and funds withheld activity.

11. Not applicable

12. Funds Held by Ceding Reinsurers - As at December 31, 2022, the Company has a funds withheld receivable balance of \$2,396,482 with UICA. This balance is comprised of assets with a fair value of \$2,339,554, short-term investments reported at cost of \$19,471, preferred stock reported at modified cost of \$7,028 and due and accrued investment income on the portfolio's investments of \$30,428.

13. Sundry Assets- As at December 31, 2022, the Company has Sundry Assets of \$349,776. This balance is comprised of net assumed deferred acquisition costs of the underlying coinsured policies of \$312,745 and a deferred tax asset of \$37,031.

14. Letters of Credit, Guarantees, and Other Instruments- As at July 1, 2022, Kemper Corporation and the Company entered into an indefinite agreement ("Keep Well Agreement") that provides the Company financial guarantees of up to \$300,000 in contributed capital, in either cash or non-cash assets, from Kemper Corporation in order to maintain a 150% Enhanced Capital Requirement ("ECR"). As at December 31, 2022, the Company received \$5,000 in cash under this agreement.

15.-19. Not applicable

20. Reserve for Reported Claims- As at December 31, 2022, the Company had a reserve for assumed reported life claims of \$27,927.

21. Reserve for Unreported Claims- As at December 31, 2022, the Company had a reserve for assumed unreported life claims of \$14,966.

22. Policy Reserves- Life- As at December 31, 2022, the Company had a reported assumed policy reserves of \$2,751,673.

PART III

Notes to the Condensed General Purpose Statutory Balance Sheet (Continued)

As at and for the Year Ended December 31, 2022

(All amounts in thousands U.S. Dollars, except common share amounts and share par value)

23. Not applicable

24. **Policyholder's Funds on Deposit-** As at December 31, 2022, the Company had a policyholder's funds on deposit liability balance of \$4,172, consisting of assumed premiums paid in advance of their due date.

25.-26. Not applicable

27. **Total Long-Term Business Insurance Reserves-** As at December 31, 2022, there were no unsecured assumed policyholder obligations as the funds held by ceding reinsurers is assessed using U.S. Statutory Accounting Principles in accordance with the agreement.

28. Not applicable

29. **Commissions, Expenses, Fees, and Taxes Payable-** As at December 31, 2022, the Company had a balance of \$5,832, representing assumed accrued commissions payable to UICA agents.

30. Not applicable

31. Taxes

Bermuda Tax

At the present time, no income, profit or capital gain taxes are levied in Bermuda and accordingly, no provision for such tax has been recorded by the Company. In the event that such taxes are levied, the Company has received an undertaking by the Bermuda Government exempting it from all such taxes until March 31, 2035.

U.S. Income Tax

The Company has filed with the U.S. Internal Revenue Service ("IRS") an election pursuant to Section 953(d) to be taxed as a domestic corporation for purposes of the U.S. Internal Revenue Code. The election is effective for the year ended December 31, 2022 and all subsequent years and may not be revoked without the consent of the U.S. Secretary of the Treasury. The Company is awaiting approval of the election from the IRS.

An electing corporation, as a domestic corporation for U.S. tax purposes, is not subject to the provisions of Subpart F of the Internal Revenue Code. In addition, premiums paid or ceded to the Company will not be subject to the U.S. federal excise tax. The Company has a current income taxes payable balance of \$45,147 which is due April 18, 2023.

Deferred taxes reflect the impact of temporary differences between amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax purposes, measured by applying currently enacted tax laws.

32-35. Not applicable

PART III

Notes to the Condensed General Purpose Statutory Balance Sheet (Continued)

As at and for the Year Ended December 31, 2022

(All amounts in thousands U.S. Dollars, except common share amounts and share par value)

36. Sundry Liabilities- As at December 31, 2022, the Company has a sundry liabilities balance of \$137,729. This balance relates to the deferred gain to the Company, net of any amortization, for entering the coinsurance relationship with UICA.

37. Not applicable

PART IV

Notes to the Condensed Statutory Statement of Income

As at and for the Year Ended December 31, 2022

(All amounts in thousands U.S. Dollars, except common share amounts and share par value)

6. Not applicable

15. Not applicable

32. Combined Other Income (Deductions) - This balance is reflective of the year-to-date amortization of the deferred gain from entering the coinsurance relationship with UICA.

36. Combined Net Realized Gain (Loss) - As at December 31, 2022, the Company had a combined realized pre-tax gain of \$26,633 from its investments in the funds withheld portfolio.