FINANCIAL STATEMENTS

Munich Re of Bermuda, Ltd.
Year Ended December 31, 2022
With Independent Auditor's Report

Munich Re of Bermuda, Ltd.

Financial Statements

Year Ended December 31, 2022

Contents

Building a better working world

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Report of Independent Auditors

The Board of Directors
Munich Re of Bermuda, Ltd.

Opinion

We have audited the financial statements of Munich Re of Bermuda, Ltd. (the Company), which comprise the statement of financial position as of December 31, 2022 and 2021, and the related statements of income and loss, comprehensive income and loss, changes in shareholder's equity and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Ernst & Young Ltd.

Hamilton, Bermuda
April 25, 2023

Munich Re of Bermuda, Ltd.

Statement of Financial Position
(Expressed in Thousands of US Dollars)

	December 31, 2022	2021
Assets		
Cash and cash equivalents *(Notes 4 and 5)*	**$ 16,247**	$ 856
Fixed income securities available-for-sale *(Notes 4 and 5)*	**108,062**	143,754
Funds withheld *(Notes 4, 6 and 17)*	**1,131,327**	1,168,766
Contract deposit assets *(Notes 10 and 17)*	**102,091**	131,782
Reinsurance recoverables *(Notes 4, 9, 14 and 17)*	**15,032**	8,470
Deferred acquisition costs *(Notes 7 and 17)*	**229,869**	39,677
Other assets *(Notes 8 and 17)*	**2,607**	2,582
Deferred tax assets *(Note 16)*	**286,375**	175,844
Total assets	**$ 1,891,610**	$ 1,671,731
Liabilities		
Provision for outstanding claims *(Notes 9 and 17)*	**$ 258,019**	$ 213,544
Provision for future policy benefits *(Notes 9 and 17)*	**931,126**	910,602
Deferred commission liability *(Note 17)*	**34,252**	–
Funds withheld liability *(Notes 6, 14 and 17)*	**15,032**	8,470
Other liabilities *(Notes 11 and 17)*	**9,691**	5,173
Deferred tax liabilities *(Note 16)*	**261,464**	150,707
Total liabilities	**$ 1,509,584**	$ 1,288,496
Shareholder's equity		
Authorised, issued and fully paid, 370,000 shares of $0.001 par value each *(Note 12)*	**370**	370
Contributed surplus *(Note 13)*	**530,750**	530,750
Accumulated deficit	**(144,448)**	(146,902)
Accumulated other comprehensive loss	**(4,646)**	(983)
Total shareholder's equity	**382,026**	383,235
Total liabilities and shareholder's equity	**$ 1,891,610**	$ 1,671,731

See accompanying notes.

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Director

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Director

Munich Re of Bermuda, Ltd.

Statement of Income and Loss
(Expressed in Thousands of US Dollars)

	Years Ended December 31	
	2022	2021
Gross written premium *(Note 17)*	**$ 687,923**	$ 545,494
Ceded written premium *(Notes 14 and 17)*	**(35,086)**	(29,423)
Net premium earned	**652,837**	516,071
Ordinary investment (loss) income	**(1,017)**	1,589
Net income from financial instruments *(Note 17)*	**2,705**	1,419
Other investment expenses *(Note 17)*	**(208)**	(212)
Interest income on funds withheld *(Notes 6 and 17)*	**30,304**	33,455
Net investment income	**31,784**	36,251
Total revenues	**684,621**	552,322
Claims and claims expenses *(Notes 9, 14 and 17)*	**(653,104)**	(627,246)
Change in reinsurance reserves *(Notes 14 and 17)*	**41,831**	71,598
Acquisition costs *(Notes 14 and 17)*	**(93,714)**	(77,281)
Administrative expenses *(Note 17)*	**(8,007)**	(8,238)
Total expenses	**(712,994)**	(641,167)
Other income and expenses *(Notes 15 and 17)*	**31,945**	30,960
Income (loss) before income taxes	**3,572**	(57,885)
Income tax (expense) benefit *(Note 16)*	**(1,118)**	12,156
Net income (loss)	**$ 2,454**	$ (45,729)

See accompanying notes.

Munich Re of Bermuda, Ltd.

Statement of Comprehensive Income and Loss
(Expressed in Thousands of US Dollars)

	December 31,	
	2022	2021
Net income (loss)	**$ 2,454**	$ (45,729)
Other comprehensive loss, net of tax		
Items that may be subsequently classified to net income:		
Net change in fair value of fixed income securities-available-for-sale	**(3,663)**	(2,123)
Other comprehensive loss for the year, net of tax	**(3,663)**	(2,123)
Total comprehensive loss for the year, net of tax	**$ (1,209)**	$ (47,852)

See accompanying notes.

Munich Re of Bermuda, Ltd.

Statement of Changes in Shareholder's Equity
(Expressed in Thousands of US Dollars)

	Share Capital	Contributed Surplus	Accumulated Deficit	Accumulated Other Comprehensive (Loss)	Total Shareholder's Equity
January 1, 2022	**$ 370**	**$ 530,750**	**$ (146,902)**	**$ (983)**	**$ 383,235**
Net income for the year	**–**	**–**	**2,454**	**–**	**2,454**
Net change in fair value of fixed income securities-available-for-sale	**–**	**–**	**–**	**(3,663)**	**(3,663)**
December 31, 2022	**$ 370**	**$ 530,750**	**$ (144,448)**	**$ (4,646)**	**$ 382,026**

	Share Capital	Contributed Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
January 1, 2021	$ 370	$ 530,750	$ (101,173)	$ 1,140	$ 431,087
Net loss for the year	–	–	(45,729)	–	(45,729)
Net change in fair value of fixed income securities-available-for-sale	–	–	–	(2,123)	(2,123)
December 31, 2021	$ 370	$ 530,750	$ (146,902)	$ (983)	$ 383,235

See accompanying notes.

Munich Re of Bermuda, Ltd.

Statement of Cash Flows
(Expressed in Thousands of US Dollars)

	Years Ended December 31, 2022	2021
Operating Activities		
Net income (loss)	**$ 2,454**	$ (45,729)
Adjustments for non-cash items in net loss		
Amortisation of investments and fair value adjustment	**5,202**	5,288
Net realized gains and losses on investments	**2,141**	(439)
Change in accrued interest income	**(23)**	222
Changes in:		
Funds withheld	**32,045**	139,669
Contract deposit assets	**29,691**	11,968
Reinsurance recoverables	**(6,562)**	(1,407)
Deferred acquisition costs	**(190,192)**	(4,473)
Other assets	**(25)**	91
Deferred tax assets	**(109,580)**	(91,661)
Provision for outstanding claims	**44,475**	(827)
Provision for future policy benefits	**20,524**	(69,804)
Deferred commission liability	**34,252**	–
Funds withheld liability	**6,562**	1,407
Other liabilities	**4,518**	2,516
Deferred tax liabilities	**110,779**	79,506
Net cash (used in) provided by operating activities	**(13,739)**	26,327
Investing activities		
Purchases of fixed income securities-available-for-sale	**(70,171)**	(94,655)
Sales of fixed income securities-available-for-sale	**99,309**	68,149
Purchases of short-term investments	**(9,736)**	–
Sales of short-term investments	**9,728**	–
Net cash provided by (used in) investing activities	**29,130**	(26,506)
Change in cash and cash equivalents	**15,391**	(179)
Cash and cash equivalents at the beginning of the year	**856**	1,035
Cash and cash equivalents at the end of the year	**$ 16,247**	$ 856
Supplementary disclosures on the cashflow information		
Interest received on funds withheld	**$ 35,698**	$ 38,849

See accompanying notes.

1. Corporate Information

Munich Re of Bermuda, Ltd. (the "Company"), formerly known as Princeton Eagle West Insurance Company Limited was incorporated under the laws of Bermuda in 1995. The Company changed its name from Princeton Eagle West Insurance Company Limited ("PEWIC") to Munich Re of Bermuda, Ltd. effective March 21, 2018. The Company is a wholly owned subsidiary of Munich Life Holding Corporation (MLHC or the Parent), which is ultimately owned by Muenchener Rueckversicherungs-Gesellschaft Aktiengesellschaft in Muenchen (Munich Re or Ultimate Parent), a Company listed on the German stock exchange.

At incorporation, the Company was licensed as a Class 3 insurer under the Insurance Act 1978 of Bermuda, as amended and related regulations (the "Insurance Act") to write all classes of property and casualty business. The Company is also incorporated under the Princeton Eagle West Insurance Company Limited Act 1997 (the "PEWIC Act"), a private act, which allows the Company to segregate assets and liabilities. The Company's property and casualty business is in run-off.

Effective February 8, 2018, the Company is registered as a long-term insurer and licensed as a Class C insurer under the Insurance Act. Effective June 28, 2018, the Company was registered as a certified reinsurer in the State of Georgia. Effective January 1, 2022, the Company was also registered as a reciprocal jurisdiction reinsurer in the State of Georgia. The Company primarily writes affiliated life reinsurance business throughout the United States of America with all of its business assumed from affiliates. The risks assumed generally reflect the risks inherent in the underlying life reinsurance policies and key risks include mortality, catastrophe, and lapse and surrender risk.

The Company obtained an 'AA-' rating from S&P in 2022 and a Financial Strength Rating of 'A+' from AM Best.

2. Basis of Preparation

Statement of Compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The Company's financial statements also comply with International Financial Reporting Interpretations Committee ("IFRIC") interpretations as issued by the IASB. The financial statements were authorised for issue by the Board of Directors on April 25, 2023.

Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following material noted items in the statement of financial position:

- Fixed income securities–available for sale are measured at fair value;
- Funds withheld are measured at amortised cost;
- Provision for future policy benefits are measured at present value of future claims and expenses, with provision for adverse deviations, minus present value of future net premium, (consistent with IFRS standards);
- Provision for outstanding claims are measured at the present value of the expected cost of settling the claims based on current best estimate;
- Deferred commission liability is measured in proportion to the present value of future premiums of the underlying contract; and
- Other financial assets and other financial liabilities are generally recognised at amortised cost.

The statement of financial position has been broadly presented in order of liquidity.

These separate financial statements contain information about the Company as an individual company. The Company is included in the Munich Re group ("Group") accounts.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

2. Basis of Preparation (continued)

Functional and Presentation Currency

The financial statements are presented in United States Dollars, which is also the Company's functional currency.

Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgment and where estimates are significant to the financial statements is the reinsurance assets and liabilities. This is disclosed further in Note 3 of these financial statements.

Non-Participating Insurance Contract Liabilities

Note 9 balances associated with long term business liabilities can never be definitive as to their timing or the number of claims and are therefore subject to regular reassessment. The significant estimates and assumptions used in calculating insurance liabilities are disclosed in Note 3.

The financial statements reflect all IFRS in force as at December 31, 2022, as well as all interpretations issued by the IFRIC, application of which was mandatory for the 2022 financial year. Since 2002, the standards adopted by the IASB have been referred to as "International Financial Reporting Standards (IFRS)"; the standards dating from earlier years still bear the name "International Accounting Standards (IAS)". Standards are cited in our Notes accordingly; in cases where the Notes do not make explicit reference to a particular standard, the term IFRS is used. In accordance with the exemptions accorded per IFRS 4 "Insurance Contracts" (IFRS 4), reinsurance contracts are recognised according to the pertinent provisions of US GAAP.

3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

While a number of amended IFRS standards have become effective during the year ended December 31, 2022, none of these standards have had a material impact on the Company.

Standards or Changes in Standards That Have Not Yet Entered into Force or are Not Yet Applicable

The Company is currently assessing the financial impact of adopting the following standards:

IFRS 9, Financial Instruments ("IFRS 9"):

On July 24, 2014, the IASB issued the complete IFRS 9. The standard introduces new requirements for the classification and measurement of financial assets. Under this standard, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new expected credit loss model for determining impairment. Initial mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018. On September 12, 2016, however, the IASB issued "Applying IFRS 9, Financial Instruments with IFRS 4 Insurance Contracts" to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9 and the forthcoming insurance contracts standard. The amendments apply in the same period in which a Company adopts IFRS 9. The amendments introduce two approaches that may be adopted by insurers in the period between the effective date of IFRS 9 and the forthcoming insurance contracts standard:

Overlay approach - an option for all issuers of insurance contracts to reclassify amounts between profit or loss and other comprehensive income for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9; and

Temporary exemption - an optional temporary exemption from IFRS 9 for companies whose activities are predominately connected with insurance. In June 2020, the IASB issued an extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4), changing the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023, alongside IFRS 17. This exemption allows an entity to continue to apply existing financial instrument requirements in IAS 39 to all financial assets until the earlier of the application of the forthcoming contracts standard; or January 1, 2023.

3. Summary of Significant Accounting Policies (continued)

The Company is following the Group's policy of adopting IFRS 9 on January 1, 2023, and is closely aligned with the Group's implementation efforts for the IFRS 9 project. The Company evaluated its liabilities at December 31, 2018, and concludes that all its liabilities are predominantly connected with insurance. There have been no changes to the Company's business activities that would necessitate a reassessment. The Company is working with the Group to assess the implications for the classification of financial instruments, and is involved in the Group's IFRS 9 global integration test process and preparations for the initial application as at January 1, 2023.

Disclosures regarding the fair value of financial assets currently in the portfolio split according to the cash flow criterion as well as disclosures about the credit risk of securities that generate cash flows that are solely payments of principal and interest ("SPPI") are provided in Note 5. This information is intended to facilitate some comparability between the Company and entities that are already applying IFRS 9.

IFRS 17, Insurance Contracts ("IFRS 17"):

In May 2017, the IASB published IFRS 17 Insurance Contracts, a comprehensive standard that establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The standard introduces consistent accounting for all insurance contracts. IFRS 17 will replace IFRS 4: Insurance Contracts ("IFRS 4"). The measurement approach under IFRS 17 is based on the following:

- A current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfils the contract;
- The effect of the time value of money;
- A risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows;
- A contractual service margin which represents the unearned profit in a contract and that is recognised as the insurer fulfils its performance obligations under the contract. Estimates are required to be re-measured each reporting period; and
- Certain types of contracts, typically short-duration contracts, will be permitted to use a simplified measurement approach. Additionally, for contracts in which the cash flows are linked to underlying terms, the liability value will reflect that linkage. There will also be a new financial statement presentation for insurance contracts and additional disclosure requirements.

3. Summary of Significant Accounting Policies (continued)

In June 2020, the IASB issued Amendments to IFRS 17, which allow the deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after January 1, 2023. The Company will adopt IFRS 17 in its financial statements for the annual periods beginning on January 1, 2023. The Company, as part of a Group-wide project, has launched an implementation project and is currently assessing the transition impact of adopting this standard in preparation for 2023 year-end financial statements.

IFRS 17 will be applied retrospectively to each group of insurance contracts with restatement of comparatives unless impracticable. If, and only if, it is impracticable to apply IFRS 17 retrospectively, the Company shall apply IFRS 17 using a modified retrospective approach or fair value approach.

Reinsurance Contracts

IFRS 4 represents the outcome of Phase I of the IASB project "Insurance Contracts" and constitutes a transitional arrangement. IFRS 17 establishes binding principles for the measurement of insurance contracts effective for annual reporting periods beginning on or after January 1, 2023. IFRS 4 sets out basic principles for the accounting of insurance contracts. Underwriting business is to be subdivided into insurance and investment contracts. Contracts with a significant insurance risk are considered to be insurance contracts, while contracts without significant insurance risk are to be classified as investment contracts. The standard is also applicable to reinsurance contracts. IFRS 4 contains fundamental rules governing specific circumstances, such as the separation of embedded derivatives and unbundling of deposit components, but it does not set out any more extensive provisions relating to the measurement of insurance and reinsurance contracts. In conformity with the exemption accorded by IFRS 4, reinsurance-specific transactions are recognised in accordance with the pertinent provisions of US GAAP.

The Company has contracts which would be classified as insurance under IFRS 4, but which do not pass risk transfer and therefore are measured under IAS 39 (Financial Instruments). The contracts are recognised as financial instruments under IAS 39 which resembles "deposit accounting" under US GAAP. Income and expenses on the underlying contract are recognised on an accruals basis and reported in the Statement of Income and Loss as ʻother income and expenses' (see Note 15). The gross balances are shown as contract deposits assets and/or contract deposit liabilities in the balance sheet (Note 10) unless there is a right to offset for presentation purposes.

3. Summary of Significant Accounting Policies (continued)

Non-Participating Insurance Contract Liabilities

Claims payable include the direct costs of settlement. Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business. These costs are charged to the statements of income and loss when incurred.

The liabilities are calculated on the basis of current information using the gross premium valuation method. This brings into account the full premiums receivable under contracts written, having prudent regard to expected lapses and surrenders, estimated renewal and maintenance costs and contractually guaranteed benefits.

Premium Written

Insurance contracts are either “short–duration” contracts or “long–duration” contracts. The determinative criteria are, inter alia, the termination opportunities available to the insurer, the period of risk protection and the scope of the services provided to the insurer in connection with the contract. Premiums from short–duration contracts are accounted for over the period of provision of insurance cover under the underlying contract. Premiums from long–duration contracts are accounted for as these become due from the policy holder. Premiums written include adjustments to premiums written in prior accounting periods. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of risks retroceded.

Financial Assets

The Company recognises the purchase and sale of directly held financial assets as at the settlement date. The recognition of fixed–income securities includes apportionable accrued interest.

Financial Assets Classified as Available for Sale

Financial assets classified as available for sale are carried at fair value; accrued interest is recognised in this context. The Company allocates to this category those financial instruments that do not satisfy the criteria for classification as held to maturity, at fair value through profit or loss, or trading. Unrealised gains and losses arising out of changes in the fair value of fixed–income securities held as available for sale are recognised within Accumulated Other Comprehensive Income/(Loss) (“AOCI”), a component of shareholder’s equity until the investment is sold or impaired. Realised gains and losses on sales and write-downs to reflect impairments, are included in the statement of income and loss.

3. Summary of Significant Accounting Policies (continued)

Investment Income, Realised Gains and Losses, Unrealised Gains and Losses, Other Investment Expenses and Income/Expenses on Funds Withheld

Ordinary investment income comprises income from financial assets, including, available for sale assets, short-term investments and money market funds. Unrealised and realised gains and losses comprises of gains and losses from available for sale assets. Interest income on funds withheld represents the Company's share of investment income on funds withheld assets reported by the cedant. Interest income is recognised as it accrues using either the effective interest rate method or the effective yield method depending on the underlying investment terms. Investment expenses comprise of investment management expenses.

Net income from financial instruments comprises of income and expenses related to reinsurance transactions that do not pass risk transfer and are therefore classified as financial instruments. They are measured at fair value.

Netting of Financial Instruments

Financial assets and liabilities are netted and recognised in the appropriate net amount if a corresponding legal claim (reciprocity; similarity and maturity) exists or is expressly agreed by contract, in other words if the intention is to offset such items on a net basis or to effect this offsetting simultaneously.

Impairment Loss and Reversals

All financial assets are assessed at each balance sheet date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired include default or delinquency by the debtor, indications that the issuer of a security will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security, or a significant or prolonged decline in fair value of a security below its cost.

Impairment losses on available for sale securities are recognised by transferring the loss that has been recognised in AOCI, to the statement of income and loss. This loss is calculated as the difference between the purchase amount, net of any principal repayments and amortisation, and the current fair value, less impairment losses previously recognised in the statement of income and loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If the reasons for the write-down no longer apply, a write-up is made in the statement of income and loss up to at most the original amortised cost for the available for sale securities. No impairments were recognised in 2022 and 2021.

3. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents are carried at face value. For purposes of the statement of cash flows, the Company considers all time deposits with an original maturity of ninety days or less and money market funds which can be redeemed without penalty as equivalent to cash.

Funds Withheld

Funds withheld represents a receivable for amounts contractually withheld by the cedant in accordance with funds withheld reinsurance agreements (funds withheld) in which the Company acts as a reinsurer. Under such contractual arrangements, the cedant, a related party, retains the premiums, net of acquisition costs and claims and claims expenses that would have otherwise been paid to the Company. Generally, assets are withheld to satisfy reinsurance regulations for statutory requirements and are legally owned by the ceding company, and any excess or shortfall is settled periodically. Interest generally accrues on these assets based upon fixed interest rates that are contractually agreed upon. Funds withheld received are recognised at fair value on the date of transfer with the fair market value adjustment amortised to the statement of income and loss over the life of the assets.

The funds withheld serve directly as collateral for the liabilities covering business assumed. The Company's business is assumed primarily via retrocession with affiliates.

Reinsurance Recoverables

The Company uses reinsurance in the normal course of business to manage its risk exposure. Insurance ceded to a reinsurer does not relieve the Company from its obligations to policyholders. The Company remains liable to its cedants for the portion reinsured to the extent that any reinsurer does not meet its obligations for reinsurance ceded to it under the reinsurance agreements.

Reinsurance assets represent the benefit derived from reinsurance agreements in force at the reporting date, taking into account the financial condition of the reinsurer. Amounts recoverable from reinsurers are estimated in accordance with the terms of the relevant reinsurance contract.

Reinsurance recoverables are calculated according to the contractual conditions on the basis of the gross technical reserves.

3. Summary of Significant Accounting Policies (continued)

Deferred Acquisition Costs

Costs are incurred in connection with acquiring new business, such as initial commission and the indirect costs of obtaining and processing new business. These costs are capitalised and amortised in accordance with the Company's accounting policies. The recoverability of these assets is assessed and impaired if the projected future margins are less than the carrying value of the assets. To the extent that the future margins differ from those anticipated, an adjustment to the carrying value of the deferred acquisition cost assets will be necessary.

For coinsurance term, the Company capitalises commissions paid in excess of the ultimate rate of commissions and amortises it over the higher of the recapture period or the level term period for coinsurance level term products.

Provision for Outstanding Claims

The provision for outstanding claims is established for Claims in Course of Settlement (ICOS). These are reported claims where the claim payment has not yet been made. The full claim amount is established without reduction for the probability of payment and included as ICOS. For individual life business, the ICOS is system generated from the claim system where each reported life claim is set up as a liability. For group life and group accidental death & dismemberment, the ICOS is calculated using a listing of open but unpaid claims which is summarised at the treaty level and then set up as a liability.

Provision for Future Policy Benefits

The provision for future policy benefits in long-duration products is calculated using the Moody's Analytics Axis valuation system. Actuarial assumptions used in the calculation, including mortality, morbidity, lapses, expense and discount rate, are determined at contracts issue on a best estimate basis and locked in for the entire duration of the contract. A provision for adverse deviation is also applied to key risks: mortality, morbidity and discount rate.

Deferred Commission Liability

Deferred commission liability relates to commission income received upfront in advance of performance under contracts and not yet recognized as income. The commission is paid upfront in connection with acquisition of new business. The deferred commission is amortized into profit over the life of the contract period.

3. Summary of Significant Accounting Policies (continued)

Ceded Share of Technical Provisions

The Company establishes IBNR at a line of business level except for Annuities, where the accrual of unreported claims is considered ICOS. Individual life IBNR is calculated using claims triangles based on the chain-ladder method with one additional iteration of the Bornheutter-Ferguson method. Non-individual life IBNR follows a lag method based on a percentage of either premium or disabled life reserve of known new claims.

Liability Adequacy Test

The Company performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of the liability on in force policies is sufficient to cover current estimates of future cash flows (outstanding claims excluded). When performing the liability adequacy test, the Company discounts all contractual cash flows and compares this amount with the carrying value of the net provision for future benefits less deferred acquisition costs. This test is performed at a total portfolio level and any deficiency is immediately charged to the statements of income and loss by establishing a provision for losses.

Financial Liabilities

Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument and are measured at amortised cost. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Income Taxes

Pursuant to a tax sharing agreement between Munich American Holding Corporation and its subsidiaries, which includes the Company, a consolidated U.S. Federal income tax return is filed. The Company uses the liability method of accounting for income taxes, whereby deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws. The Company establishes a "valuation allowance" for any portion of the deferred tax asset that management does not believe is more likely than not realisable.

Related-Party Transactions

IAS 24 defines related parties, among others, as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the Company itself. All related party transactions have been recorded in accordance with IAS 24 and includes business both assumed and ceded under usual market conditions.

3. Summary of Significant Accounting Policies (continued)

Fair Value Determination

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction in the principal market at the measurement date under current market conditions (i.e., the exit price). The determination of fair value requires judgement and is based on market information, where available and appropriate. Fair value measurements are categorised into three levels within a fair value hierarchy (Level 1, 2 or 3) based on the valuation inputs used in measuring the fair value, as outlined in Note 5.

For financial instruments that are not carried on the statement of financial position at fair value and where we consider the carrying value to be a reasonable approximation of fair value due to their short-term nature and generally negligible credit risk, the fair values disclosed for these financial instruments are assumed to equal their carrying values and include cash and cash equivalents, interest receivables, reinsurance receivables, other receivables, reinsurance payables, and other payables.

Risk Management System

The Company's risk management system is designed to be commensurate to the nature, scale and complexity of the risks inherent in the business. The Company's risk management system has been approved by the Company's Board of Directors.

4. Management of Technical and Financial Risks

Insurance Risk

Key Risks and Mitigation Measures

The Company's main insurance risks are:

- Mortality risk
- Catastrophe risk
- Lapse risk

The Company's exposure to insurance risk is mitigated through the existence of Risk Strategy which specify limits and thresholds to ensure that risk is accepted on a basis that is in line with the Company's risk appetite.

Mortality Risk

The Company is exposed to mortality risk through the reinsurance of life insurance business from its affiliates. The reinsurance structures include traditional structures such as risk premium reinsurance and stop loss reinsurance. The Company has a maximum retention of $7,500 per life and has affiliate retrocession arrangements in place to cede risk in excess of this limit.

Catastrophe Risk

Due to the mortality exposure described in the previous section, the Company is also exposed to mortality catastrophe risk, namely pandemic risk. The Company has a portfolio level stop-loss reinsurance agreement that caps total mortality loss at approximately $75,000 above the expected level.

Lapse Risk

Financial reinsurance portfolio is relatively small. The Company is party to a range of cash and non-cash financing structures with its US affiliates. Treaties are structured to mitigate the extent of the Company's exposure to lapse risk.

4. Management of Technical and Financial Risks (continued)

Traditional business has different lapse risk profiles. Lower lapse typically is adverse for some legacy individual life business, although lapse rate assumptions are already very low for these products. Higher lapse is adverse for new Individual Life ("IL") business due to lost tail profits, but since premium and claim are fairly well matched, the expected impact is not significant.

(Expressed in Thousands of US Dollars)

Sensitivity to Insurance Risks

The Company assesses its exposure to insurance risk through Solvency II best estimate liability analysis, which is subsequently used as a key input for the economic balance sheet and to determine an economic capital allocation to each risk. The Company calculates its Solvency II numbers quarterly for Group reporting purposes. The methodology and assumptions used are in line with EIOPA Principles.

The table below shows the sensitivity of the Company's best estimate liability, and corresponding impact to profit and shareholder's equity, as of December 31, 2022, under a range of insurance stresses:

	2022	
	Best Estimate (Asset) Liability $ US Thousands	**Increase (Decrease) in Best Estimate Liability $ US Thousands**
Base	(886,904)	–
Mortality business: Mortality +5%	(431,825)	455,079
Mortality +0.25% annually	(438,140)	448,764
Maintenance expenses +10%	(865,381)	21,523
Risk-free yield +100 bps	(792,595)	94,309
Risk-free yield -100 bps	(1,036,297)	(149,393)
200-yr Pandemic: mortality + 0.58‰ in the first year, best estimate afterwards *	(689,279)	197,625
1000-yr Pandemic: mortality + 2.09‰ in the first year, best estimate afterwards *	(151,856)	735,048

** Portfolio excess loss treaty with certain cedants caps mortality loss at 80m above the best estimate level for any single calendar year. To be prudent, the pandemic sensitivities assume the one-year shock is spread over two calendar years.*

All stresses are applied for the duration of the projections unless otherwise stated.

(Expressed in Thousands of US Dollars)

4. Management of Technical and Financial Risks (continued)

Concentrations of Insurance Risk

Concentration risk is defined as a group of heavily correlated risks that have a potential to cause significant loss or default in a short period of time. The assumed business is mainly subject to mortality and interest rate risk.

Market Risk

The Company does not write any business that contains financial options or guarantees. The Company is exposed to changes in interest rates due to the impact on liability valuations. The table below shows the effective interest rates associated with the Company's cash and cash equivalents and fixed income securities and impact of a shift in yield curves.

	Coupon Rate		Yield to Maturity	
	2022	**2021**	**2022**	**2021**
Figures in %				
US Treasury Notes	**0.64%**	0.38%	**4.65%**	0.77%
Money market funds	**3.79%**	0.01%	**3.79%**	0.01%
Fixed income securities including cash equivalents	**1.01%**	0.38%	**4.54%**	0.77%

	2022		2021	
	P&L $	**Equity $**	**P&L $**	**Equity $**
Interest Rate Risk				
+100 basis point shift in yield curves	**–**	**(1,539)**	–	**(3,000)**
–100 basis point shift in yield curves	**–**	**1,571**	–	**3,082**

Exposure to market risk is also controlled through the existence of limits and thresholds in the Company's Risk Strategy.

(Expressed in Thousands of US Dollars)

4. Management of Technical and Financial Risks (continued)

Liquidity Risk

The Company maintains a portfolio of securities that primarily comprises high quality liquid assets that can be easily monetised. Liquidity risk arising from insurance contracts is managed using financial projections and forecasts to ensure the Company is able to meet its expected liquidity requirements.

Credit Risk

The following tables analyse the rating structure of cash and cash equivalents, fixed income securities, funds withheld and reinsurance recoverables using the lowest of Standard & Poor's, A.M. Best, Moody's or Fitch ratings:

	AAA **$**	**AA** **$**	**A** **$**	**BBB** **$**	**BB** **$**	**NR** **$**	**Total** **$**
December 31, 2022							
Cash and cash equivalents	**14,894**	–	**1,353**		–	–	**16,247**
Fixed income securities	–	**108,062**	–	–	–	–	**108,062**
Funds withheld	–	**1,131,327**	–	–	–	–	**1,131,327**
Reinsurance recoverables	–	**15,032**	–	–	–	–	**15,032**

	AAA **$**	**AA** **$**	**A** **$**	**BBB** **$**	**BB** **$**	**NR** **$**	**Total** **$**
December 31, 2021							
Cash and cash equivalents	99	–	757	–	–	–	856
Fixed income securities	–	143,754	–	–	–	–	143,754
Funds withheld	–	1,168,766	–	–	–	–	1,168,766
Reinsurance recoverables	–	8,470	–	–	–	–	8,470

(Expressed in Thousands of US Dollars)

5. Investments

Fair Value of Financial Instruments

The Company uses a fair value hierarchy to categorise the inputs used in valuation techniques to measure fair value in accordance with IFRS 13 which requires an entity to classify each financial instrument into one of three fair value levels as follows:

- Level 1 - for unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - for inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - for inputs that are based on unobservable market data.

The following table shows the breakdown of the financial instruments recognised at fair value (fixed income securities include the related accrued interest receivable balance) into the three–level fair value hierarchy.

	Level 1	Level 2
2022		
Fixed income securities–available for sale	**$ –**	**$ 108,062**
Cash and cash equivalents	**16,247**	**–**
Total	**$ 16,247**	**$ 108,062**

	Level 1	Level 2
2021		
Fixed income securities–available for sale	$ –	$ 143,754
Cash and cash equivalents	856	–
Total	$ 856	$ 143,754

Other financial instruments, such as funds withheld, contract deposits and other assets are stated at amortised cost which approximates fair value.

(Expressed in Thousands of US Dollars)

5. Investments (continued)

Details of Significant Terms and Conditions, Exposure to Interest Rate and Credit Risk on Investments are as follows:

Fixed–Income Securities – Average Market Yield

	Average Market Yield 2022	2021
US Treasury Notes	**4.65%**	0.77%

Fixed–Income Securities – By Duration

	2022		2021	
	Fair Value[1]	**Amortised Cost**	**Fair Value[1]**	**Amortised Cost**
Term to Maturity				
US Treasury Notes:				
One year or less	**$ 4,646**	**$ 4,847**	$ 9,875	$ 9,748
One through five years	**103,416**	**108,959**	133,879	135,137
	$ 108,062	**$ 113,806**	$ 143,754	$ 144,885

1 Includes accrued interest

(Expressed in Thousands of US Dollars)

5. Investments (continued)

Fixed–Income Securities

The following table shows the carrying value, fair value and related unrealised gains and (losses) of the fixed income securities:

	2022				
	Amortised Cost $	**Unrealised Gains $**	**Unrealised Losses $**	**Accrued Interest $**	**Fair Value $**
Available for sale					
US Treasury Notes	**113,806**	–	**(5,881)**	**137**	**108,062**
Total	**113,806**	–	**(5,881)**	**137**	**108,062**

	2021				
	Amortised Cost $	**Unrealised Gains $**	**Unrealised Losses $**	**Accrued Interest $**	**Fair Value $**
Available for sale					
US Treasury Notes	144,885	107	(1,352)	114	143,754
Total	144,885	107	(1,352)	114	143,754

No impairments (2021: $Nil) were recognised in the investment portfolio in the year under review.

(Expressed in Thousands of US Dollars)

5. Investments (continued)

IFRS 9 Deferral Disclosures

The following table presents the fair value and the amount of change in the fair value of the Company's financial assets as at and for the year ending December 31, 2022, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are SPPI on the principal amount outstanding and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("non-SPPI"):

		SPPI Financial Assets		Non-SPPI Financial Assets	
	Total Carrying Value $	**Fair Value[1] $**	**Change in Fair Value $**	**Fair Value $**	**Change in Fair Value $**
Financial asset					
Fixed income securities	**108,062**	**108,062**	**(4,636)**	–	–
Total	**108,062**	**108,062**	**(4,636)**	–	–

[1] *Includes accrued interest*

The Fixed income securities have low credit risk as they are United States government bonds rated as AA.

6. Funds Withheld

The Company recognizes funds withheld assets and liabilities for retrocession treaties whereby the premium related to the business was retained by the cedant (or by the Company to affiliated cedants with respect to funds held liability) and credited to a funds withheld account. The assets underlying the funds withheld account are maintained by an investment custodian in the United States of America. Income from funds withheld assets was $30,304 (2021: $33,455), which consists of funds withheld interest income of $35,698 (2021: $38,849) and the fair value amortization of ($5,394) (2021: ($5,394)).

(Expressed in Thousands of US Dollars)

7. Deferred Acquisition Costs

In life and health reinsurance the deferred acquisition costs associated with life and annuity policies with regular premium payments are determined in light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income.

Development of net deferred acquisition costs:

		2022		2021
Balance as at January 1	**$**	**39,677**	$	35,204
Capitalisation		**199,644**		6,513
Amortisations		**(9,452)**		(2,040)
Balance as at December 31	**$**	**229,869**	$	39,677

8. Other Assets

Other assets totalling $2,607 (2021: $2,582) consists of an intercompany receivable of $450 (2021: $367) and other receivables relating to the run-off property and casualty business of $2,157 (2021: $2,215)

(Expressed in Thousands of US Dollars)

9. Reinsurance Reserves

In order to show the net reinsurance provisions remaining in the retention the following table compares the gross provisions with the corresponding retrocessionaires' shares, which are shown as assets in the balance sheet.

	2022			2021		
	Gross	**Retro**	**Net**	**Gross**	**Retro**	**Net**
Provision for outstanding claims	**$ 258,019**	**$ –**	**$ 258,019**	$ 213,544	$ –	$ 213,544
Provision for future policy benefits	**931,126**	**(15,032)**	**916,094**	910,602	(8,470)	902,132
Total	**$1,189,145**	**$ (15,032)**	**$1,174,113**	$1,124,146	$ (8,470)	$1,115,676

Provision for outstanding claims roll forward

	2022			2021		
	Gross	**Retro**	**Net**	**Gross**	**Retro**	**Net**
Balance as at January 1	**$ 213,544**	**$ –**	**$ 213,544**	$ 214,371	$ –	$ 214,371
Incurred claims and claims expenses						
Current year	**661,812**	**(8,708)**	**653,104**	673,959	(46,713)	627,246
Less:						
Claims and claims expenses paid						
Current year	**617,337**	**(8,708)**	**608,629**	674,786	(46,713)	628,073
Balance as at December 31	**$ 258,019**	**$ –**	**$ 258,019**	$ 213,544	$ –	$ 213,544

Provision for future policy benefits roll forward

	2022			2021		
	Gross	**Retro**	**Net**	**Gross**	**Retro**	**Net**
Balance as at January 1	**$ 910,602**	**$ (8,470)**	**$ 902,132**	$ 980,406	$ (7,063)	$ 973,343
Changes	**(39,716)**	**(6,562)**	**(46,278)**	(69,804)	(1,407)	(71,211)
Portfolio entries/exits	**60,240**	–	**60,240**	–	–	–
Balance as at December 31	**$ 931,126**	**$ (15,032)**	**$ 916,094**	$ 910,602	$ (8,470)	$ 902,132

(Expressed in Thousands of US Dollars)

9. Reinsurance Reserves (continued)

Maturities of Reinsurance Reserves

IFRS 4 "Insurance Contracts" requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical provisions broken down by the expected remaining times to maturity. For further explanation of the recognition and measurement of the reserves please see Note 3.

Provision for future policy benefits

	2022			**2021**		
	Gross	**Retro**	**Net**	**Gross**	**Retro**	**Net**
Due in one year	**$ 71,595**	**$ (1,156)**	**$ 70,439**	$ 39,698	$ (369)	$ 39,329
Due one through five years	**65,025**	**(1,050)**	**63,975**	276,075	(2,568)	273,507
Due five through ten years	**173,378**	**(2,799)**	**170,579**	239,666	(2,229)	237,437
Due ten through twenty years	**285,108**	**(4,603)**	**280,505**	239,407	(2,227)	237,180
Due after twenty years	**336,020**	**(5,424)**	**330,596**	115,756	(1,077)	114,679
Total	**$931,126**	**$ (15,032)**	**$916,094**	$ 910,602	$ (8,470)	$ 902,132

10. Contract Deposits

Contract deposits assets totalling $102,091 (2021: $131,782) consist of consideration paid accounted for under the "deposit accounting" method. In 2022, the Company recorded contract deposits receivables of $2,555 (2021: $13,032) and was repaid $32,246 (2021: $25,000). As at December 31, 2022, the Company also recognised $393,300 (2021: $488,974) as a deposit asset which is also equal to a deposit liability of $393,300 (2021: $488,974) which are presented net due to legal right of offset.

11. Other Liabilities

Other liabilities totalling $9,691 (2021: $5,173) consists of the following at December 31, 2022 and 2021:

	2022	**2021**
Reinsurance payables	**$ 4,460**	$ –
Accounts payable and accrued expenses	**3,076**	2,960
Other payables	**2,155**	2,213
	$ 9,691	$ 5,173

(Expressed in Thousands of US Dollars)

11. Other Liabilities (continued)

Other payables relate to the run-off property and casualty business.

12. Shareholder's Equity

	2022	2021
Authorised		
370,000 common shares of par value of $1 each (voting)	**$ 370**	$ 370
Common share capital		

The Company has issued 370,000 (2021: 370,000) common shares at $0.001 each, which are fully paid.

13. Contributed Surplus

Contributed surplus represents amounts contributed by the common shareholder in addition to the subscription to the issued share capital.

(Expressed in Thousands of US Dollars)

14. Reinsurance Result

The Company reinsures life insurance risk in traditional and alternative forms. The Company limits its exposure to loss on insureds up to a pre-specified amount by ceding additional risks through reinsurance contracts with an affiliate.

The amounts included in the Statement of Financial Position related to these reinsurance transactions consist of the following:

		2022		2021
As at December 31				
Reinsurance recoverable	**$**	**15,032**	$	8,470
Funds withheld liability		**15,032**		8,470
Other liabilities		**4,460**		–

The amounts included in our Statement of Income and Loss related to these reinsurance transactions consist of the following:

		2022		2021
As at December 31				
Ceded written premium	**$**	**(35,086)**	$	(29,423)
Claims and claims expenses		**8,708**		46,713
Interest loss on funds withheld		**(55)**		(97)
Change in reinsurance reserves		**6,562**		1,407
Acquisition costs		**410**		333

(Expressed in Thousands of US Dollars)

15. Other Income and Expenses

		2022		2021
Other income				
Income from contracts recognised in accordance with the deposit accounting method	**$**	**30,881**	$	31,574
Commission income earned		**1,748**		–
Total other income		**32,629**		31,574
Other expenses				
Expenses from contracts recognised in accordance with the deposit accounting method		**(684)**		(614)
Total expenses		**(684)**		(614)
Total other income and expenses	**$**	**31,945**	$	30,960

16. Taxes

Under current Bermuda law the Company is not required to pay any taxes in Bermuda on profits or income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted from Bermuda taxation until the year 2035.

The Company has made an irrevocable election under Section 953(d) of the United States Internal Revenue Code of 1986, as amended, to treat the Company as a domestic insurance company for United States federal income tax purposes. As a result of the "domestic election", the Company is subject to US taxation on its worldwide income as if it were a US corporation. The Company joins with the Parent and its includable affiliates in filing a consolidated US income tax return. The consolidated companies have executed a tax allocation agreement. Under this agreement, the US income tax provision has been determined substantially on the basis of a separate return computation.

(Expressed in Thousands of US Dollars)

16. Taxes (continued)

The net deferred income taxes at December 31, 2022 and 2021, represent the net temporary differences between the tax bases of assets and liabilities and their amounts for financial reporting. The components of the net deferred income taxes, based on a tax rate of 21% at December 31, were as follows:

	2022	2021
Federal net operating loss carryforward	**$ 155,526**	$ 69,485
Present value of future premiums	–	2,889
Funds withheld	**121,878**	102,685
Bonus accrual and long-term incentive plan	**543**	501
Unrealized investment losses	**1,235**	284
Deferred commission income	**7,193**	–
Gross deferred tax assets	**286,375**	175,844
Valuation allowance	–	–
Total deferred tax assets	**286,375**	175,844
Deferred acquisition costs	**48,273**	7,929
Accrual of market discount	**21**	12
Fair value adjustments - Funds withheld	**11,516**	12,649
Unrealized investment gains	–	22
Contract deposit assets	**19,688**	24,938
Benefit reserves	**154,119**	105,157
Claims deferred	**27,847**	–
Total deferred tax liabilities	**261,464**	150,707
Net deferred tax assets	**$ 24,911**	$ 25,137

At December 31, 2022, the Company had a net operating loss carry-forward of $740,598 (2021: $330,882) and no capital loss carryforwards for federal income tax purposes.

The Company is using reinsurance tax planning strategies to support the utilization of the deferred tax assets. The Company has the intent and ability to implement the strategies in order to generate taxable income to fully utilize the deferred tax asset.

Directly recognised in equity for fixed income securities available-for-sale were ($1,235) (2021: ($262)).

(Expressed in Thousands of US Dollars)

16. Taxes (continued)

Total income tax expense attributable to loss from continuing operations for the years ended – December 31, 2022 and 2021, consists of:

	2022		
	Current	**Deferred**	**Total**
Federal income tax benefit/(expense)	**$ 82**	**$ (1,200)**	**$ (1,118)**
Total federal and foreign income tax benefit	**$ 82**	**$ (1,200)**	**$ (1,118)**

	2021		
	Current	**Deferred**	**Total**
Federal income tax benefit	$ –	$ 12,156	$ 12,156
Total federal and foreign income tax benefit	$ –	$ 12,156	$ 12,156

The Company's federal statutory rate for the years ended December 31, 2022 and 2021, was 21%.

	2022	**2021**
Income/(loss) before tax	**$ 3,572**	$ (57,885)
Income tax rate:	**21%**	21%
Tax (expense)/benefit at federal statutory income tax rate	**(750)**	12,156
Tax effect of:		
Prior period adjustment	**(368)**	–
Federal income tax (expense)/benefit	**$ (1,118)**	$ 12,156

(Expressed in Thousands of US Dollars)

17. Related-Party Disclosures

The Company transacts business with affiliated companies on a regular basis. These transactions primarily consist of reinsurance agreements and investment management agreements. The Company had the following activity with affiliated companies under reinsurance agreements and investment management agreements as of December 31, 2022 and 2021:

	2022	2021
Statement of financial position		
Funds withheld	**$ 1,131,327**	$ 1,168,766
Contract deposit assets	**102,091**	131,782
Reinsurance recoverables	**15,032**	8,470
Deferred acquisition costs	**229,869**	39,677
Other assets	**2,607**	2,582
Provision for outstanding claims	**258,019**	213,544
Provision for future policy benefits	**931,126**	910,602
Deferred commission liability	**34,252**	–
Funds withheld liability	**15,032**	8,470
Other liabilities	**6,874**	2,534
Statement of income and loss		
Gross written premium	**$ 687,923**	$ 545,494
Ceded written premium	**(35,086)**	(29,423)
Net premium earned	**652,837**	516,071
Net income from financial instruments	**2,705**	1,419
Other investment expenses	**(208)**	(212)
Interest income on funds withheld	**30,304**	33,455
Claims and claims expenses	**(653,104)**	(627,246)
Change in reinsurance reserves	**41,831**	71,598
Acquisition costs	**(93,714)**	(77,281)
Administrative expenses	**(988)**	(704)
Other income and expenses	**31,945**	30,960

All transactions and balances arise from the normal course of business and are unsecured.

The Company has an investment management agreement in place with a related party to manage the Company's investment portfolio. Investment management fees incurred during the year amounted to $183 (2021: $212) of which $Nil (2021: $Nil) was payable at year-end. These fees are included in other investment expenses. $25 (2021: $Nil), also included in other investment expenses, are related to other investment services provided by related parties.

18. Statutory Requirements

Munich Re of Bermuda, Ltd. is a Class C long-term insurer. As a Class C insurer, the Company is required to maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of the Bermuda Insurance Act 1978.

The enhanced capital requirement ("ECR") is calculated using the Bermuda Solvency Capital Requirement ("BSCR") model, a standardised model used to measure the risk associated with an insurer's assets, liabilities and insurance related risk exposure. The Company is required to maintain a minimum statutory capital and surplus equal to the higher of the capital requirements as measured by the BSCR and the minimum solvency margin ("MSM"). As a Class C long-term insurer, the Company's MSM is defined as the greater of 1.5% of assets; $500,000; and 25% of the ECR.

Pursuant to the Insurance Act 1978, if the Company fails to meet its MSM or ECR at any time, the Company is prohibited from declaring or paying a dividend. The Company is further prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus unless it files with the Bermuda Monetary Authority, at least seven days before such payment, an affidavit stating that it will continue to meet its required margins. In accordance with its Class 3 insurance license, the Company is required to maintain a minimum statutory capital and surplus of $120 (2021: $120). Actual statutory capital and surplus is $493 (2021: $589). The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents and other assets. Certain categories of assets do not qualify as relevant assets under the statute. The relevant liabilities are total general business insurance reserves (net of reinsurance recoverable) and total other liabilities, less sundry liabilities. At December 31, 2022, the Company was required to maintain relevant assets of $Nil (2021: $Nil). At that date, relevant assets under its Class 3 insurance license were $490 (2021: $589) and the minimum liquidity ratio was therefore met. As at December 31, 2022, the Company's statutory capital and surplus exceeded all calculated minimum regulatory requirements.

19. Capital Management

The preservation and consistent enhancement of its capital is a key strategic objective for the Company. The Company met all applicable local minimum capital requirements in the year under review.

20. Subsequent Events

The Company has evaluated events subsequent to December 31, 2022, and through April 25, 2023, which is the date these financial statements were available to be issued and has determined there are no material subsequent events requiring adjustment to or disclosure in the financial statements.