AeBe ISA Ltd.

Financial Statements and Report of Independent Auditors
December 31, 2022

As of the period ended September 9, 2022 (inception) to December 31, 2022

Contents

Building a better working world

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Report of Independent Auditors

The Board of Directors
AeBe ISA Ltd.

Opinion

We have audited the financial statements of AeBe ISA Ltd. (the Company), which comprise the balance sheet as of December 31, 2022, and the related statement of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the period from September 9, 2022 to December 31, 2022, 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 the results of its operations and its cash flows for the period from September 9, 2022 to December 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

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

Ernst & Young Ltd.

Hamilton, Bermuda
April 26, 2023

AeBe ISA Ltd.
Balance Sheet
As at December 31, 2022

(Expressed in ‘000 U.S. Dollars)

	Note	December 31, 2022
ASSETS		
Available for sale securities, at fair value (amortized cost - $990,520)	**2**	995,747
Derivatives, at fair value		36,282
Funds withheld asset, at fair value	**4**	3,002,121
Cash and cash equivalents		5,860
Restricted cash		177,638
Other assets	**6**	14,194
Total Assets		**4,231,842**
LIABILITIES		
Insurance liabilities, at fair value	**8**	3,886,044
Insurance balance payable		14,609
Deferred tax liability	**7**	6,546
Income taxes payable	**7**	53
Other liabilities	**9**	49,794
Total liabilities		**3,957,046**
EQUITY		
Common Stock		250
Additional paid-in capital		249,750
Accumulated other comprehensive income (loss), net of tax		(37,403)
Retained earnings		62,199
Total equity		**274,796**
Total Liabilities and Equity		**4,231,842**

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

AeBe ISA Ltd.
Statement of Operations and Comprehensive Income (Loss)
Period from September 9, 2022 (inception) to December 31, 2022

(Expressed in '000 U.S. Dollars)

	Note	2022
Revenue		
Net investment income	**2**	11,521
Fair value changes associated with reinsurance contracts		72,145
Total revenue		**83,666**
Benefits and expenses		
General and administrative expenses	**13**	4,926
Total benefits and expenses		**4,926**
Net income (loss) before income taxes		**78,740**
Income tax expense (benefit)	**7**	16,541
Net income (loss)		**62,199**
Other Comprehensive Income (Loss)		
Change in fair value of available for sale securities, net of tax of benefits (expense) of (1,097)		4,129
Change in insurance liabilities due to own credit risk, net of tax of benefits (expense) of 11,040		(41,532)
Other comprehensive income (loss), net of tax		**(37,403)**
Total comprehensive income (loss)		**24,796**

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

AeBe ISA Ltd.
Statement of Changes in Shareholders' Equity
Period from September 9, 2022 (inception) to December 31, 2022

(Expressed in '000 U.S. Dollars)

	Common Stock	Additional paid-in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at September 9, 2022 (inception)	-	-	-	-	-
Common Stock	250	-	-	-	250
Additional paid-in capital		249,750			249,750
Net Income	-	-	62,199	-	62,199
Accumulated Other Comprehensive Income (loss)	-	-	-	(37,403)	(37,403)
Balance at December 31, 2022	**250**	**249,750**	**62,199**	**(37,403)**	**274,796**

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

AeBe ISA Ltd.
Statement of Cash Flows
Period from September 9, 2022 (inception) to December 31, 2022

(Expressed in '000 U.S. Dollars)

	Period from 2022
Cash flows from operating activities	
Net income (loss)	62,199
Adjustments to reconcile net income to cash provided by operating activities:	
Change in fair value of derivatives	(3,513)
Derivative purchases	(33,004)
Derivative sales	235
Net realized loss on available for sale securities	4,113
Net amortization/accretion on available for sale securities	(972)
Change in operating assets and liabilities:	
Funds withheld asset, at fair value	(3,002,121)
Other assets	(14,194)
Future policy benefits, at fair value	3,844,438
Other liabilities	49,794
Income taxes payable	53
Deferred tax liability	5,523
Insurance balance payable	14,609
Net cash provided by operating activities	**927,160**
Cash flows from investing activities	
Sale of available for sale securities	670,444
Purchase of available for sale securities	(1,664,106)
Net cash used in investing activities	**(993,662)**
Cash flows from financing activities	
Common stock	250
Additional paid in capital	249,750
Net cash provided by financing activities	**250,000**
Net increase in cash, cash equivalents and restricted cash	**183,498**
Cash, cash equivalents and restricted cash, beginning of period	**-**
Cash, cash equivalents and restricted cash, end of period	**183,498**

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

1. Organization, Nature of Operations and Summary of Significant Accounting Policies

Organization

AeBe ISA Ltd. ("We", "ISA" or the "Company") is registered as a Class E insurer licensed under the Insurance Act 1978 and its related regulations, as amended (the "Act"). ISA is an exempted Company limited by shares and was established as an Incorporated Segregated Account under the Incorporated Segregated Accounts Companies Act 2019 ("ISAC Act") in Bermuda on September 9, 2022. The Company is wholly owned by AeBe HRS Intermediateco 2, LLC ("AeBe Holdco"), a Delaware limited liability company.

Nature of Operations

Effective October 3, 2022 ISA entered into a reinsurance agreement with a US based life insurance company. Under the agreement, the Cedant ("the First Cedant"), which has a minority indirect ownership interest in AeBe Holdco, ceded $4.0 billion in statutory reserves of certain in-force fixed indexed and fixed rate annuity product liabilities and has the option in the future to cede liabilities of certain single premium fixed deferred annuities, or policies as otherwise agreed to by parties issued after the treaty effective date, at risk adjusted pricing terms that may be acceptable to the Cedant at that time. Under the agreement, these liabilities will be ceded 75% on a funds withheld coinsurance basis and 25% on a coinsurance basis. The liabilities reinsured on a coinsurance basis are secured by assets held in both a statutory and supplemental trust. The liabilities reinsured on a funds withheld basis are secured by a segregated funds withheld account in which the assets are maintained by the Cedant. The Cedant transferred cash and investments with a fair value of $3.0 billion to the segregated funds withheld account and $1.0 billion to the statutory trust at close of this reinsurance agreement on October 3, 2022. At the close of the reinsurance agreement, the Cedant received a closing ceding commission of $70 million. The Cedant remains liable to policyholders with respect to the policy liabilities ceded to ISA should ISA fail to meet the obligations it has reinsured. The assets in the trusts and funds withheld account are required to remain at a value that is sufficient to support the current balance of policy benefit liabilities of the ceded business on a statutory basis.

Basis of Presentation

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

- Available for sale securities, at fair value;
- Funds withheld asset at fair value;
- Insurance liabilities at fair value; and
- Derivatives, at fair value.

The period ended December 31, 2022 is reported for the period beginning at date of incorporation on September 9, 2022 through December 31, 2022.

A description of each critical estimate is incorporated within the discussion of the related accounting policies which follow. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized.

Significant Accounting Policies and Pronouncements

<u>Investments</u>
Investment securities are classified as available for sale ("AFS"). Management determines the appropriate classification at the time of purchase. The classification of securities is significant since it

directly impacts the accounting for unrealized gains and losses on securities. Fixed income investments are classified as AFS, which are carried at fair value, with the unrealized gains and losses, reported in other comprehensive income (loss) and are not reported in earnings until realized.

Realized gains and losses on sales of fixed income investments, as well as other investments, are recognized into income based upon specific identification method. Interest is recognized as earned. Short-term investments are highly liquid investments that are less than one year in term to the dates of maturity at purchase dates, and they present insignificant risk of changes in value due to changing interest rates.

The Company regularly evaluates all its investments based on current economic conditions, credit loss experience, and other specific developments. If there is a decline in an investment's net realizable value that is other-than-temporary, it is considered as a realized loss and the cost basis in the investment is reduced to its estimated fair value.

A fixed income investment is considered to be other-than-temporarily impaired when the investment's fair value is less than its amortized cost and 1) the Company intends to sell the investment, 2) it is more likely than not that the Company will be required to sell the investment before recovery of the investment's amortized cost basis, or 3) the Company believes it will be unable to recover the entire amortized cost basis of the investment (i.e. credit loss has occurred). Other-than-temporary-impairments ("OTTI") of fixed income investments are separated into credit and non-credit related amounts when there are credit-related losses associated with the impaired fixed income investment for which management asserts that it does not have the intent to sell the investment, and it is more likely than not that it will not be required to sell the investment before recovery of its cost basis. The amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors is recorded in other comprehensive (loss) income. A credit loss is determined by assessing whether the amortized cost basis of the investment will be recovered, by comparing the present value of cash flows expected to be collected from the investment, computed using original yield as the discount rate, to the amortized cost basis of the investment. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is the "credit loss".

<u>Funds withheld asset</u>
Funds withheld assets represent a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which the Company acts as reinsurer. Although the assets in funds withheld are legally owned by the ceding company, the assets are held separately from the general account of the cedants and all economic rights and obligations on the assets accrue to the Company.

The securities that support the funds withheld asset are reported in the balance sheet at fair value, with unrealized gains/losses reported in earnings. The fair value is determined by the Company considering various sources of information, including information provided by third party pricing services.

<u>Derivative assets</u>
Derivative assets are equity options purchased by the Cedant to fund fixed index annuity credits related to the reinsured business. The Company has elected the fair value option for this asset. The Company reinsures fixed index annuity products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index. When fixed index annuity deposits are received, a portion of the deposit is used by cedant to purchase derivatives consisting of equity options on the applicable market indices to fund the index credits due to fixed index annuity policyholders. We are entitled to the proceeds on those call options when such equity options expire. The receivable is recognized in the balance sheet at fair value of the underlying derivatives. Changes in fair value will be recognized immediately in operations.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, and non-U.S. government bonds. Cash and cash equivalents are deposited with financial institutions with balances that fluctuate more than federally insured limits. If the financial institutions were not to honor their contractual liability to the Company, it could incur losses. The Company is of the opinion that there is low risk because of the financial strength of the respective financial institutions. The Company is also subject to concentrations of credit risk through short-term money market investments. The credit risk related to short-term money market investments is minimized by investing in money market funds or repurchase agreements, both secured by U.S. government securities.

Net Investment Income

Interest income is recorded in net investment income per the statement of operations and comprehensive income (loss) and is recognized on an accrual basis. Amortization of premiums and accretion of discounts on investments in fixed income investments are reflected in net investment income over the contractual terms of the investments in a manner that produces a constant effective yield. Net investment income includes realized gains and losses from the sale of investments and write-downs for other-than-temporary impairments of AFS investments. It also includes investment expenses and gains and losses on securities carried at fair value. Realized gains and losses on the sale of investments are determined using the specific cost identification method.

Comprehensive (Loss) Income

Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale fixed income investments, unrealized losses related to factors other than credit on fixed income investments and change in future policy liabilities, at fair value due to change in own credit risk, are reported as a separate component in the equity section in the accompanying balance sheet. Such items, along with net income (loss), are components of comprehensive (loss) income, and are reflected in the accompanying statement of operations and comprehensive (loss) income. Reclassifications of realized gains and losses on sales of investments out of accumulated other comprehensive income (loss) are recorded in net investment (losses) gains, if any, in the accompanying statement of operations and comprehensive (loss) income.

Cash and cash equivalents

The Company considers highly liquid securities and other investments with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents. At December 31, 2022, substantially all cash balances were at major financial institutions earning interest. The Company does not anticipate nonperformance by these institutions.

Restricted cash primarily consists of cash and cash equivalents held in funds in trust as part of coinsurance agreement to secure statutory reserves and liabilities of the cedant. Restricted cash is reported separately on the balance sheet but is included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows.

Insurance Liabilities, at Fair Value

Insurance liabilities, at fair value include amounts for unpaid losses and future policy benefits. The fair value related to insurance liabilities is determined using the income approach allowed under ASC 820, Fair value measurement and disclosures. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Those valuation techniques include present value techniques. The liability cash flows are generated using best estimate assumptions (plus a risk margin where applicable) and are consistent with market prices where available. Risk margins are typically applied to non-observable, non-hedgeable market inputs such as long-term volatility, mortality, morbidity, surrender, etc. Best estimate assumptions are made with respect to these inputs (including mortality, morbidity, surrender and investment returns). Actual experience is monitored to ensure that the assumptions remain appropriate and changes are made when warranted. The liability cash flows consist of all directly related cash flows of the reinsurance agreement, including premiums, policyholder benefits, expense allowance, premium tax and commissions. Policies are terminated through surrenders and maturities, where surrenders represent the voluntary terminations of policies by policyholders and maturities are determined by policy contract terms. Surrender assumptions are based upon cedent experience adjusted for expected future conditions. The Company uses duration weighting in the development of the discount rate. The liability cash flows are discounted using a rate that is composed of the risk free rate, non-performance risk spread, and a risk margin to reflect uncertainty.

The non-performance risk spread refers to the risk that the obligation will not be fulfilled and includes the Company's own credit risk. The non-performance risk relating to the liability is assumed to be the same before and after its transfer. The risk margin is reflective of the uncertainty within the cash flows associated with the reinsurance contract.

Income taxes

The Company intends to make a 953 (d) election to be regarded as a U.S. taxpayer from date of incorporation. The Company will be taxed as a corporation for U.S income tax purposes and will file its own standalone tax return. The taxable items resulting from the Company are included in the tax provision computation. The Company accounts for income taxes under the asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversal of existing taxable temporary differences, tax planning strategies, projected future taxable income, and recent financial operations.

The Company recognizes tax benefits in accordance with the provisions of the standard for accounting for uncertainty in income taxes. Penalties and interest on the Company's tax positions are classified as a component of the Company's income tax provision.

Recently Issued Accounting Standards

Financial instruments - credit losses
(ASC 326: ASU 2020-02, ASU 2019-11, ASU 2019-05, ASU 2019-04, ASU 2018-19, ASU 2016-13)

This update is designed to reduce complexity by limiting the number of credit impairment models used for different assets. The model will result in accelerated credit loss recognition on assets held at amortized cost. The identification of credit-deteriorated securities will include all assets that have experienced a more than significant deterioration in credit since origination. Additionally, any changes in the expected cash flows of credit deteriorated securities will be recognized immediately in the income statements. AFS fixed maturity securities are not in scope will undergo targeted improvements to the current reporting model including the establishment of a valuation allowance for credit losses versus the current direct write down approach.The most recent update provides entities that have certain instruments within the scope credit losses measured at amortized cost, with an option to irrevocably elect the fair value option in ASC 825-10. The fair value option election does not apply to HTM fixed income investments. An entity that elects the fair value options should subsequently apply the guidance as per ASC 825-10. The Company is required to adopt this standard for fiscal years beginning after December 15, 2022. The Company evaluated the impact of this guidance on its financial statements. At present, this update does not have an impact on the financial statements as the Company does not have securities held at amortized cost.

Insurance - targeted improvements to the accounting for long-duration contracts (ASC 944: ASU 2020-11. ASU 2019-09, ASU 2018-12)

This update amends four key areas pertaining to the accounting and disclosures for long-duration insurance and investment contracts:

- The update requires cash flow assumptions used to measure the liability for future policy benefits to be updated at least annually and no longer allows a provision for adverse deviation. The remeasurement of the liability associated with the update of assumptions is required to be recognized in net income. Loss recognition testing is eliminated for traditional and limited payment contracts. The update also requires the discount rate utilized in measuring the liability to be an upper-medium grade fixed-income instrument yield, which is to be updated at each reporting date. The change in liability due to changes in the discount rate is to be recognized in OCI.
- The update simplifies the amortization of deferred acquisition costs and other balances amortized in proportion to premiums, gross profits, or gross margins, requiring such balances to be amortized on a constant level basis over the expected term of the contracts. Deferred costs are required to be written off for unexpected contract terminations but are subject to impairment testing.
- The update requires certain contract features meeting the definition of market-risk benefits to be measured at fair value. Among the features included in this definition are the guaranteed lifetime withdrawal benefits (GLWB) and guaranteed minimum death benefits (GMDB) riders attached to annuity products. The change in the fair value of the market risk benefits is to be recognized in net income, excluding the portion attributable to changes in instrument- specific credit risk which is recognized in OCI.
- The update also introduces disclosure requirements which include disaggregated roll forwards of balances and information about significant inputs, judgements, assumptions and methods used in their measurement.

The Company is required to adopt this update for fiscal years beginning after December 15, 2024. At present, this accounting standard is not anticipated to have a material impact on the Company's financial statements due to the election of the fair value option for accounting for reinsurance contracts.

(Expressed in '000 U.S. Dollars)

2. Investments

The table below shows fair value and gross unrealized gains and losses of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category as of December 31, 2022:

December 31, 2022

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for sale securities, at fair value				
,				
Asset-backed securities	335,973	1,430	(588)	336,815
Commercial mortgage-backed securities	57,849	236	(123)	57,962
Residential mortgage-backed securities	7,905	67	(5)	7,967
U.S. corporates	421,950	4,828	(927)	425,851
Global corporates	57,985	454	(77)	58,362
Short term investments	107,406	36	(91)	107,351
Hybrid	1,452	-	(13)	1,439
Total	**990,520**	**7,051**	**(1,824)**	**995,747**

None of the Company's securities have been in a continuous unrealized loss position exceeding twelve months as of December 31, 2022.

As of December 31, 2022, contractual maturities of fixed income investments by classification are as follows:

December 31, 2022

	Amortized cost	Fair Value
Available for sale		
Within one year	112,225	112,155
From one to five years	272,555	273,843
From five to ten years	238,716	240,246
After ten years	367,024	369,503
Total	**990,520**	**995,747**

The major categories of net investment income for the period ended December 31, 2022 are as follows:

Net investment income	**2022**
Interest earned on available for sale investments, net of amortization and accretion	14,822
Realized losses on available for sale investments	(4,113)
Derivatives gains	3,513
Less: Investment expenses	(2,701)
Net investment income	**11,521**

Fair values of interest rate sensitive instruments may be affected by increases and decreases in prevailing interest rates, which generally translate, respectively, into decreases and increases in fair values of fixed income investments. The fair values of interest rate sensitive instruments also may be affected by the credit worthiness of the issuer, prepayment options, relative values of other investments, the liquidity of the instrument, and other general market conditions.

The Company evaluated each security and considered the severity and duration of the impairment, the current rating on the bond, and the outlook for the issuer according to independent analysts. The Company found that the declines in fair value are most likely attributable to increases in interest rates, and there is no evidence that the likelihood of not receiving all the contractual cash flows as expected has changed. When assessing whether the amortized cost basis of the security will be recovered, the Company compares the present value of the cash flows likely to be collected, based on an evaluation of all available information relevant to the collectability of the security, to the amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as the "credit loss." If there is a credit loss, the impairment is other-than-temporary. If the Company identifies that an other-than-temporary impairment loss has occurred, the Company then determines whether it intends to sell the security, or if it is more likely than not that it will be required to sell the security prior to recovering the amortized cost basis less any current-period credit losses. If the Company determines that it does not intend to sell, and it is more likely than not that it will not be required to sell the security, then the amount of the impairment loss related to the credit loss will be recorded in earnings, and the remaining portion of the other-than-temporary impairment loss will be recognized in other comprehensive (loss) income, net of tax. If the Company determines that it intends to sell the security, or that it is more likely than not that it will be required to sell the security prior to recovering its amortized cost basis less any current-period credit losses, then the full amount of the other-than-temporary impairment will be recognized in earnings.

For the period ended December 31, 2022, the Company determined that none of its securities were other-than-temporarily impaired. Adverse investment market conditions, or poor operating results of underlying investments, could result in impairment charges in the future.

3. Fair Value of Financial Instruments

ASC 820, Fair Value Measurement and Disclosures, provides a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the guidance are described below:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or observable inputs that are corroborated by market data.
Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lower level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(Expressed in ‘000 U.S. Dollars)

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

December 31, 2022

	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Available for sale securities				
Asset-backed securities	336,815	-	336,815	-
Commercial mortgage backed securities	57,962	-	57,962	-
Residential mortgage backed securities	7,967	-	7,967	-
U.S. corporates	428,851	-	428,851	-
Global corporates	58,362		58,362	
Short term investments	107,351	-	107,351	-
Hybrid	1,439	-	1,439	
Total Available for sale securities	995,747		995,747	
Funds withheld asset	3,002,121	-	3,002,121	-
Cash and cash equivalents	5,860	5,860	-	-
Restricted cash	177,638	177,638	-	-
Derivative assets	36,282	-	36,282	-
Total assets at fair value	4,217,648	183,498	4,034,150	
Liabilities				
Insurance Liabilities, fair value	3,886,044	-	-	3,886,044
Total liabilities at fair value	3,886,044			3,886,044

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

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

Funds withheld asset - We estimate the fair value of funds withheld assets based on the change in the fair value of the assets supporting the funds withheld receivable under funds withheld reinsurance agreements.

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

Derivative assets - The carrying amount for hedge option equals fair value. We estimate the fair value for hedge option based on quoted market prices. These assets are classified as Level 2

(Expressed in '000 U.S. Dollars)

Insurance liabilities, fair value - The carrying amount for insurance liabilities equals fair value.

Quantitative information regarding significant unobservable inputs used for Level 3 fair value measurements of insurance liabilities carried at fair value as of December 31, 2022 is as follows:

Liabilities	Fair Value	Unobservable inputs	Percentage
Insurance Liabilities, fair value	3,886,044	Non-performance risk spread	1.07%
		Risk Margin to reflect uncertainty	.33%
Total	3,886,044		

4. Funds withheld asset, at fair value

Funds withheld assets represent a receivable for amounts contractually withheld by ceding companies in accordance with the funds withheld reinsurance agreement in which the Company acts as the reinsurer. Generally, assets equal to statutory reserves are withheld and legally owned by the ceding company. Although the Company does not directly control the underlying investments in the funds withheld asset, in each instance the ceding company has hired 26North Partners LP to manage the withheld assets in accordance with the Company's investment guidelines. We have also hired Blackrock, Inc to provide sub-advisory and accounting services. The following summarizes the underlying investment composition of the funds withheld asset:

	December 31, 2022
Corporate bonds	2,019,681
Asset-backed securities	601,760
Global corporates	235,527
Residential mortgage-backed securities	10,416
Global government agencies	31,593
Commercial mortgage-backed Securities	5,493
Short-term investments	58,953
Surplus notes	2,909
Unrealized gain/loss	35,948
Total fixed income investments	3,002,280
Cash and cash equivalents	15,891
Accrued investment income	33,204
Net payables	(49,254)
Funds withheld asset, at fair value	**3,002,121**

(Expressed in '000 U.S. Dollars)

5. Concentrations of Financial and Capital Markets Risk

The Company is exposed to financial and capital market risk, including changes in interest rates and credit spreads which could have an adverse effect on the Company's financial options, results of operations, and liquidity. A rise in interest rates, in the absence of other countervailing changes, will have an adverse impact on the recorded fair value of the Company's investments. If long term interest rates rise dramatically within a short period of time, certain of the Company's reinsured products may be exposed to disintermediation risk. Disintermediation risk refers to the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring the Company to liquidate assets earlier than expected. This risk is mitigated to some extent by surrender charge protection provided by the products reinsured by the Company.

6. Other assets

Other assets as of December 31, 2022 are as follows:

	2022
Receivable for securities	147
Accrued investment income	10,424
Receivable from cedant	3,623
Total other assets	**14,194**

7. Taxation

Bermuda

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

United States

Effective from its date of incorporation, the Company intends to submit an irrevocable election under Section 953(d) of the Internal Revenue Code to be treated as a U.S. domestic insurance company and will, therefore, be subject to income tax in the U.S. on it worldwide income. For the period ended December 31, 2022, income tax (benefit) expense consists of the following:

	2022
Current	52
Deferred	16,489
Total	**16,541**

(Expressed in '000 U.S. Dollars)

As of December 31, 2022, the components of net deferred tax assets (liabilities) are as follows:

	2022
Deferred tax assets:	
Deferred acquisition costs	1,214
Capital loss carryforwards	864
Start-up costs	318
Insurance liabilities	211
Total gross deferred tax assets	2,607
Deferred tax liabilities:	
Investments	(1,604)
Funds withheld assets	(7,549)
Total gross deferred tax liabilities	(9,153)
Net deferred tax assets (liabilities)	(6,546)

A valuation allowance is recognized if, based on the weight of available evidence, it is "more likely than not" that some portion or all the deferred tax assets will not be realized. The Company determined no valuation allowance was necessary as of December 31, 2022.

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items for the period ended December 31, 2022 causing this difference are as follows:

	2022
Provision computed at the statutory rate	16,536
State taxes	5
Total income taxes	16,541

As of December 31, 2022, the Company has a capital loss carryforward of 4,113, which expires in 2027.

As of December 31, 2022, the Company has no unrecognized tax benefits and does not expect any material changes to the unrecognized tax benefits within twelve months of the reporting date. For the period ended December 31, 2022, the Company did not recognize any interest and penalties. The Company will file U.S. Federal income tax returns beginning with its 2022 initial tax year.

(Expressed in '000 U.S. Dollars)

8. Insurance liabilities

Various assumptions used to determine the future policy benefit reserves of life insurance include valuation interest rates, mortality assumptions and withdrawals.

The following table presents information on changes in the liability for life claims for the years ended as of December 31, 2022

	2022
Insurance liabilities as of September 9, 2022 (inception)	-
Impact of terminations	11,330
Impact of new business	3,945,625
Normal change of in force	(123,577)
Management actions and changes in assumptions	52,666
Insurance liabilities as of December 31, 2022	3,886,044

9. Other liabilities

Other liabilities as of December 31, 2022 are as follows:

	2022
Payable for securities	22,350
Payable to cedant	20,000
Due to affiliates	4,356
General expenses due or accrued	3,088
Total other payables	**49,794**

10. Statutory requirements

The Company is licensed by the Bermuda Monetary Authority ("BMA") as a long-term insurer and is subject to the Bermuda Insurance Act 1978, as amended ("the Act") and regulations promulgated thereunder. The Company is registered as a Class E insurer, which is defined by regulation. The BMA implemented the Economic Balance Sheet ("EBS") framework into the Bermuda Solvency Capital Requirement ("BSCR"), which was granted equivalence to the European Union's Directive (2009/138/EC).

In the EBS, the assets are recorded based on GAAP fair values and insurance reserves are based on technical provisions comprised of a best estimate liability plus a risk margin. The best estimate liability has been computed using the scenario-based approach where the discount rate from the insurance reserve is based on the yield of eligible assets as determined under the worst result of nine prescribed stress conditions.

(Expressed in '000 U.S. Dollars)

Based upon the Bermuda Insurance Act, the Company is required to maintain minimum Economic Balance Sheet (EBS) capital and surplus to meet the Enhanced Capital Requirement (ECR). The ECR is equal to the greater of

- $8,000,
- 2% of the first $500,000 of statutory assets plus 1.5% of statutory assets above $500,000 or
- 25% of ECR.

The Company, being a Class E insurer, is required to disclose the makeup of its capital in accordance with the "3 tier capital system". The highest quality capital is classified as "Tier-1" and the lesser quality capital as "Tier-2" and "Tier-3". The company has met its eligible capital requirements by "Tier-1" capital as at 31 December 2022.

The following table represents the Company's statutory capital and surplus as at December 31, 2022.

Total shareholder's Equity as per GAAPs	274,796
Non-admitted assets (not admissible for the statutory capital and surplus)	-
Statutory Capital and Surplus	274,796

11. Common share capital and contributed surplus

The Company's common share capital comprises 250,000 authorized shares at $1 par value each, which represents 100% of the Company's total voting shares.

The change in accumulated other comprehensive income ("AOCI") for the period ended December 31, 2022, including unrealized gain of $4,129 on available for sale securities. As a result of the Company adopting ASU 2016-01, an amount of $(41,606), net of deferred tax, which represents changes in reserves due to a change in own credit risk. The closing balance of both components of accumulated other comprehensive income is representative of activities during the period.

12. Related party transactions

<u>Intercompany Service Agreements</u>
Effective October 3, 2022, the Company entered into a management services agreement with Agam Bermuda ISAC Ltd to provide services including asset liability management, enterprise risk management, strategic asset allocation and actuarial, capital and risk consulting and most of the management team for the Company. The management fee is calculated based on the fair value of the investments in the Statutory and Supplement Trust Accounts and on the book value of the Funds Withheld Trust account. For the period ended December 31, 2022, service fees is included in the general and administrative expenses in the Statement of Operations and Comprehensive (Loss) Income.

<u>Investment Management Agreement</u>
Effective October 1, 2022, the Company entered into an investment management agreement with 26North Partners LP for the management of its investments included on the balance sheet. The investment management fee is calculated based on the fair value of the net assets invested at the end of each calendar month. For the period ended December 31, 2022, investment management fees is included in the net investment income in the Statement of Operations and Comprehensive (Loss) Income.

(Expressed in '000 U.S. Dollars)

The following table summarizes the significant related party transactions as at December 31, 2022:

Related party name	**Transaction**	**2022**
26North Partners LP	Investment management fee and expenses	3,607
Agam Capital Management LLC and Agam Bermuda ISAC Ltd.	Service fee and expenses	749
Total		**4,356**

13. General and administrative expenses

General and administrative expenses incurred in the period ended December 31, 2022 is as follows:

	2022
Professional fees	1,079
Legal fees	1,490
Audit fees	150
Service fee	699
Other expenses	1,508
Total	4,926

14. Commitment and contingencies

The restricted assets are primarily related to reinsurance trusts established in accordance with coinsurance agreement. The total restricted assets included on the balance sheet at December 31, 2022 are as follows:

	2022
Available for sale securities, at fair value	995,747
Restricted cash	177,638
Funds withheld asset, at fair value	3,002,121
Total	**4,175,506**

15. Litigation, claims and assessments

In the ordinary course of its business, the Company may become subject to claims or proceedings from time to time arising in the normal course of its business. As of December 31, 2022, the Company does not believe it is involved in any legal action that could have a material adverse effect on its financial condition, results of operations, or cash flows.

16. Subsequent events

Effective February 1, 2023, the Company entered a flow reinsurance funds withheld and Coinsurance Agreement with the First Cedant to reinsure a flow block of Multi-Year Guarantee contracts worth approximately $525 million in annual premium.

As of April 26, 2023 there were no other subsequent events to report.