Martello Re Limited

Financial Statements

For the year ended December 31, 2022 and the period from July 21, 2021 to December 31, 2021

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May 4, 2023

Report of Independent Auditors

To the Board of Directors and Shareholder of Martello Re Limited

Opinion

We have audited the accompanying financial statements of Martello Re Limited (the "Company"), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income (loss) and comprehensive income (loss), of shareholder's equity and of cash flows for the year ended December 31, 2022 and the period from July 21, 2021 to December 31, 2021, including 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 as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the year ended December 31, 2022 and the period from July 21, 2021 to December 31, 2021 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 (US GAAS). Our responsibilities under those standards are further described in the *Auditors' 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 from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional scepticism 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 judgement, 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.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Martello Re Limited

Balance Sheets

(U.S. dollars in thousands, except share and per share data)	December 31, 2022	December 31, 2021
Assets		
Investments:		
Fixed maturity, available-for-sale, at fair value	$ 842,554	$ -
(amortized cost: 2022 - $880,616 and 2021 - $ 0)		
Equity securities, at fair value (cost: 2022 - $20,000 and 2021 - $0)	20,390	-
Policy loans	26,905	-
Other investments, at fair value (amortized cost: 2022-$137,791 and 2021-$0)	138,276	
Mortgage loans, at amortized cost	54,498	-
Funds withheld at interest, at fair value	14,887,975	-
Total Investments	15,970,598	-
Cash and cash equivalents	304,229	306,295
Accrued investment income	5,673	-
Deferred acquisition costs	318,740	-
Market risk benefits assets	11,806	-
Intercompany receivable	1,663	-
Net deferred tax asset	-	2,345
Income taxes receivable	12,291	-
Other assets	17,856	-
Total Assets	$ 16,642,856	$ 308,640
Liabilities and Shareholder's Equity		
Liabilities		
Policy benefit reserves	$ 102,267	$ -
Policyholder account balances	16,392,885	-
Market risk benefit liabilities	284,971	-
Long-term debt	221,000	-
Accounts payable and other accrued expenses	13,547	11,165
Intercompany payable	10,832	-
Other liabilities	99,009	-
Total Liabilities	$ 17,124,511	$ 11,165
Shareholder's Equity		
Common stock; par value $1 per share; 250,000 shares authorized and issued	250	250
Additional paid-in capital	1,468,242	306,045
Accumulated other comprehensive income (loss)	(3,488)	-
Retained earnings (accumulated deficit)	(1,946,659)	(8,820)
Total Shareholder's Equity	(481,655)	297,475
Total Liabilities and Shareholder's Equity	$ 16,642,856	$ 308,640

See accompanying notes to financial statements

Martello Re Limited

Statements of Income (Loss) and Comprehensive Income (Loss)

(U.S. dollars in thousands)	Year Ended December 31, 2022	Period from July 21, 2021 to December 31, 2021
Revenues		
Premiums	$ 114,054	$ -
Product fees and charges	40,599	-
Net investment income	550,563	-
Investment related (losses) gains	(2,226,508)	-
Total Revenues	(1,521,292)	$ -
Benefits and expenses		
Insurance policy benefits (includes remeasurement gains (losses) 2022:$1,160 and 2021:$0)	27,471	-
Interest credited to policyholder account balances	277,483	-
Amortization of deferred acquisition costs	41,154	-
Change in the fair value of market risk benefits, net	(186,147)	-
Policy expenses	232,852	-
Interest and debt expense	5,680	-
Operating expenses	15,709	11,165
Total benefits and expenses	414,202	11,165
Net income (loss) before income taxes	(1,935,494)	(11,165)
Income tax benefit (expense)	(2,345)	2,345
Net (loss) income	(1,937,839)	(8,820)
Other comprehensive (loss) income, net of tax		
Unrealized (loss) gain on available for sale securities, net of tax	(38,062)	-
Change in policy benefit reserves attributable to the discount rate	14,839	-
Change in market risk benefit attributable to instrument specific credit risk	19,735	-
Total other comprehensive (loss) income	(3,488)	-
Total comprehensive (loss) income	$ (1,941,327)	$ (8,820)

See accompanying notes to financial statements

Martello Re Limited

Statements of Shareholder's Equity

(U.S. dollars in thousands)	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Total shareholder's equity
Balance at July 21, 2021	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Common stock $1 par value issued	250	-	-	-	250
Capital contributions	-	306,045	-	-	306,045
Net (loss) income	-	-	-	(8,820)	(8,820)
Balance at December 31, 2021	**$ 250**	**$ 306,045**	**$ -**	**$ (8,820)**	**$ 297,475**
Capital contributions	-	1,162,197	-	-	1,162,197
Other comprehensive (loss) income	-	-	(3,488)	-	(3,488)
Net (loss) income	-	-	-	(1,937,839)	(1,937,839)
Balance at December 31, 2022	**$ 250**	**$ 1,468,242**	**$ (3,488)**	**$ (1,946,659)**	**$ (481,655)**

See accompanying notes to financial statements

Martello Re Limited
Statements of Cash Flows

(U.S. dollars in thousands)	Year Ended December 31, 2022	Period from July 21, 2021 to December 31, 2021
Cash flows from operating activities		
Net income (loss)	$ (1,937,839)	$ (8,820)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of deferred acquisition costs	41,154	-
Investment related (losses) gains	2,226,508	-
Change in market risk benefits assets and liabilities	(186,147)	-
Other	4,661	-
Change in operating assets and liabilities		
Accrued investment income	(5,673)	-
Deferred acquisition costs deferrals	(425,045)	-
Net deferred tax asset	-	(2,345)
Change in Funds withheld at interest	(267,708)	-
Policy benefit reserves	(1,555)	-
Policyholder account balances	241,624	-
Accounts payable and other accrued expenses	2,382	11,165
Income tax receivable	(12,291)	-
Other assets and liabilities	11,455	-
Net cash provided by (used for) operating activities	$ (308,474)	$ -
Cash flows from investing activities	-	-
Purchase of fixed maturity securities - AFS Securities	$ (1,166,370)	$ -
Sales, maturities and repayments of Fixed Maturity - AFS Securities	296,598	-
Purchase of equity securities	(20,000)	-
Purchase of Mortgage Loans	(52,065)	-
Purchase of Other Investments	(139,571)	-
Sale of Other Investments	1,780	-
Change in policy loans, net	2,839	-
Net cash used in/provided by investing activities	$ (1,076,789)	$ -
Cash flows from financing activities		
Issuance of long-term debt	$ 221,000	$ -
Paid in share capital	1,162,197	250
Capital contributions	-	306,045
Net cash used in/provided by financing activities	$ 1,383,197	$ 306,295
Net increase (decrease) in cash and cash equivalents	$ (2,066)	$ 306,295
Cash and cash equivalents, as of beginning-of-period	306,295	-
Cash and cash equivalents, as of end-of-period	$ 304,229	$ 306,295
Supplemental information:		
Cash paid for income taxes	12,291	-
Cash paid for interest	1,595	-
Non-cash transactions	-	-
Day one deposits on investment contracts under funds withheld at interest	14,821,313	
Day one assets and liabilities assumed through coinsurance funds withheld agreement	14,756,161	-
Deposits on policyholder account balances	3,994,746	-
Withdrawals on policyholder account balances	2,031,683	-

See accompanying notes to financial statements

1. Nature of Business

Martello Re Limited (the "Company"), was incorporated as a Bermuda exempted company with limited liability on July 21, 2021 and licensed as a Class E insurer by the Bermuda Monetary Authority ("BMA") under The Insurance Act 1978 (as amended) of Bermuda, effective December 13, 2021.

The Company is wholly owned by Martello Re Holdings Limited LLC (the "Holding Company"), a holding company incorporated in the State of Delaware, United States. Martello Re LP, a limited partnership registered in the State of Delaware, United States is the direct shareholder of the Holding Company which is ultimately held by long-term investors who have committed capital to Martello Re LP.

The Company is a reinsurer that supports asset-intensive life and annuity liabilities. The Company entered into two reinsurance agreements in 2022. As the reinsurance agreements were entered into during 2022, there are no balances related to the Company's reinsurance operations during 2021.

In February 2022, the Company executed a coinsurance funds withheld ("FWH") reinsurance agreement covering $14.2 billion of in-force fixed annuity and fixed indexed annuity ("FIA") policies issued by a Massachusetts Mutual Ascend Life Insurance Company ("MMALIC") which continues to service all policies reinsured ("Reinsured Business").

In March 2022, the Company executed a coinsurance FWH quota share agreement covering new flow business on multi-year guaranteed annuities ("MYGA") from Massachusetts Mutual Life Insurance Company.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Accounting policies that the Company believes are most dependent on the application of estimates and assumptions are related to the determination of:

- valuation of investments
- valuation of embedded derivatives associated with fixed indexed annuity policies
- valuation of market risk benefits
- valuation allowance on deferred tax assets

While the amounts included in the financial statements reflect management's best estimates and assumptions, the actual results could materially differ from the amounts reported in the financial statements.

These estimates are discussed further in the footnote disclosures below.

Significant Accounting Policies

Fixed Maturity Securities

Fixed maturity securities include corporate bonds, state and municipal bonds, collateralized loan obligations ("CLO"), asset backed securities ("ABS"), commercial mortgage-backed securities ("CMBS"), and residential mortgage-backed securities ("RMBS"). The Company classifies Fixed maturity securities as available-for-sale ("AFS") at the time of purchase and subsequently carries them at fair value.

Any unrealized gains and losses on AFS securities are included in Accumulated other comprehensive income (loss) ("AOCI"). The deferred income tax consequences of unrealized gains and losses on AFS securities are also reported in AOCI, resulting in a net presentation within AOCI.

Net investment income consists of interest income, including amortization of the premium or discount arising at acquisition and net of investment management expenses. Realized gains and losses, are recorded in the statement of income (loss) in investment related (losses) gains using the specific identification method.

The Company generally records security transactions on a trade date basis, with any unsettled trades recorded in Other assets or Other liabilities on the Balance sheets.

Accrued investment income represents interest income that is earned and receivable. It is presented separately within the Balance sheets.

Equity Securities

Equity securities include common stock and non-redeemable preferred stock. Equity securities with readily determinable fair values will be measured at fair value with subsequent changes being reflected in Net income (loss). Dividend income is recorded in Net investment income when earned and unrealized holding gains and losses for these securities as well as realized gains and losses from the sale of equity securities is recorded in Investment related (losses) gains on the Statements of income (loss).

Policy Loans

Policy loans represent those loans that have been issued to contract holders in return for a claim on the Policyholder's account balance and are reported at the unpaid principal balances. Interest income is recorded as earned using the contractual interest rate and reported in Net investment income on the Statements of income (loss).

Other Investments

Other investments include limited partnerships and open-ended funds. The Company accounts for these investments using the equity method to determine the carrying value. Changes in the carrying value are presented in Net investment income on the Statements of income (loss).

Mortgage Loans

Mortgage loans are reported on an amortized cost basis, net of write-offs, and any unamortized premiums or discounts on purchased loans. Interest income is accrued on the principal amount of the loan based on its contractual interest rate and is recorded in Accrued investment income and the amount earned is recorded in Net investment income. The Company discontinues accruing interest after the loans become 90 days past due, such loans are subject to evaluation through discussions with the counterparty. After evaluation, balances that are deemed uncollectible will be written off in a timely manner.

Funds Withheld at Interest

Funds withheld at interest ("FWH") represents a receivable for amounts contractually withheld and legally owned by ceding companies in accordance with FWH coinsurance reinsurance agreements in which the Company is the reinsurer. The assets are generally set equal to the regulatory reserve requirement of the cedant. The underlying agreements contain embedded derivatives as discussed below.

Other-Than-Temporary Impairment ("OTTI")

The Company assesses its AFS securities quarterly to determine if there has been an other-than-temporary decline in fair value below the amortized cost. The impaired security is considered other-than-temporary when the Company: (1) has the intent to sell the security as of the Balance sheet date; (2) determines it is more likely than not that the security will be required to be sold; or (3) determines the entire amortized cost basis is not expected to be recovered.

If the Company intends to sell or is more likely than not required to sell the impaired AFS security, the decline in fair value is reported as a realized investment loss in the Statements of income (loss) as the difference between carrying value and fair value. If the Company does not intend to sell the security but determines the entire amortized cost basis is not expected to be recovered, the amounts representing credit losses are separated from the amounts related to other factors. Amounts representing credit losses are reported as realized investment losses in Investment related (losses) gains on the Statements of income (loss). Amounts related to all other factors are included as a component of Other comprehensive income (loss) (“OCI”), net of the related income tax benefit and are recorded within AOCI on the Balance sheets.

The previous amortized cost basis less the OTTI recognized in earnings shall become the new amortized cost basis of the AFS security and shall not be adjusted for subsequent recoveries in fair value. The amortized cost basis shall be adjusted subsequently for accretion and amortization.

Fair Value
ASC 820, *Fair Value Measurement,* defines fair value for financial reporting, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (i.e., Level 1) and the lowest priority to unobservable inputs (i.e., Level 3). In accordance with ASC 820 for fair value measurements and disclosures, assets and liabilities recorded at fair value on the Balance sheets are categorized as Level 1, 2 and 3.

See *Note 4. Fair Value* for further discussion on the basis of hierarchy, methodology and assumptions in estimating fair value.

Embedded Derivatives
ASC 815, *Derivatives and Hedging*, states that when an embedded derivative is separated from a hybrid instrument, the accounting for the host contract should be based on the accounting guidance that is applicable to similar contracts that don’t contain the embedded derivative. The separated derivative would be accounted for as a derivative instrument under ASC 815, consistent with the accounting for a freestanding derivative. That is, the embedded derivative is classified on the Balance sheets as an asset or liability at fair value with any changes in its fair value recognized in Investment related (losses) gains in the Statements of income (loss).

The FWH coinsurance agreements with the ceding company results in an embedded derivative as the assets backing the liabilities are retained by the ceding company, but the underlying value of the assets are not closely related to factors of the host contract. The Company has identified the embedded derivative as a total return swap under which one party (the cedant) transfers the economic risks and rewards associated with an underlying asset to another counterparty (the Company). The transfer of risks and rewards is affected by an exchange of cash flows that mirrors change in the value of the underlying assets and any income derived from the underlying assets. The cedant makes periodic payments to the Company comprising of the coupons/interest from the underlying assets and, either periodically or at maturity of the swap, an amount equivalent to the appreciation in the market value of the underlying assets. The economic effect for the Company is equivalent to that derived from owning the assets. As the FWH account is transferred at fair value, the embedded derivative will have zero value as of the effective date. The funds received as part of this transaction and retained by the cedant is classified as a Funds withheld at interest at fair value on the Balance sheets. The carrying amount of the FWH asset account is maintained with an aggregate carrying value at least equal to the FWH amount in accordance with the applicable reinsurance agreements. Absent any changes in the composition of assets included within the account, the FWH account is set equal to the fair value of the assets as of the date of the reinsurance transaction. Incremental assets required to be funded into the FWH account would then be recorded at their purchase price, which approximates fair value.

Subsequent to the effective date of the transaction, the embedded derivative is measured as a total return swap with a floating leg. This is equal to the change in fair value from the effective date of the transaction for assets that were in existence as of this date and the change in fair value since the acquisition date for any assets acquired and included within the FWH account subsequent to the effective date of the transaction. The FWH at interest includes the fair value of the embedded derivatives, and the change in fair value of the embedded derivatives are recognized in Investment related (losses) gains on the Statements of income (loss).

FIA contracts allow the policyholder to elect a fixed interest rate return or an equity market component for which interest credited is based on the performance of certain equity market indices. The equity market option is an embedded derivative. The benefit reserve is equal to the sum of the fair value of the embedded derivative and the host (or guaranteed) component of the contracts. The fair value of the embedded derivatives represents the present value of cash flows attributable to the indexed strategies. The embedded derivative cash flows are based on assumptions for future policy growth, which include assumptions for expected index credits on the next policy anniversary date, future equity options costs, volatility, interest rates and policyholder behavior assumptions including lapses and the use of benefit riders. The embedded derivative cash flows are discounted using a rate that reflects the Company credit rating. The host contract is established at contract inception as the initial account value less the initial fair value of the embedded derivative and accreted over the policy's life. Changes in the fair value of embedded derivatives associated with fixed indexed annuities are included in Interest credited to policyholder account balances on the Statements of income (loss).

Reinsurance
The Company assumes insurance and investment contracts under FWH coinsurance agreements including in-force and new flow business. In-force reinsurance consists only of policies that were issued by the ceding company prior to the inception of the reinsurance contract. New flow business is structured such that new policies are issued subsequent to the inception of the reinsurance contract.

The Company applies the same measurement and accounting guidance for deferred acquisition costs, policyholder liabilities and other related balances for contracts assumed through reinsurance consistent with those contracts directly written with policyholders.

The Company has no ceded reinsurance agreements.

Cash and Cash Equivalents
Cash and cash equivalents include liquid short-term money-market funds held, with investments purchased with a maturity at acquisition of less than 90 days from the date of acquisition. Included amounts are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Deferred Acquisition Costs ("DAC")
Acquisition costs are defined as those costs related directly to the successful acquisition of new or renewal insurance contracts. Such costs include ceding commissions, fees, and other acquisition-related costs.

Incremental costs that were incurred to successfully acquire contracts are deferred to DAC. Future contract renewal costs are not capitalized or amortized until incurred. Those costs that are not deferred to DAC are expensed as incurred.

DAC is amortized on a constant level basis approach over the expected term of the related contracts. DAC is grouped consistent with those used in estimating the related liabilities for these contracts. DAC amortization is calculated at the end of the reporting period, incorporating actual experience. Changes in future best estimate assumptions are applied in the amortization rate prospectively.

The Company's investment contracts have significant revenue streams such as surrender charges. As a result, DAC on investment contracts is not amortized applying an interest method.

Internal Replacements of Long-duration Contracts

An internal replacement is defined as a modification in product benefits, features, rights, or coverages that occurs by a contract exchange; by amendment, endorsement, or rider to a contract; or by the election of a benefit, feature, right, or coverage within the contract. If the modification does not substantially change the contract or go beyond the agreed upon reinsurance parameters, the Company does not change the accounting and amortization of existing DAC and related actuarial balances.

If the modification represents a substantial change, the related DAC is written off.

Policyholder Account Balances

Policyholder account balances are comprised of single premium immediate annuities ("SPIA") without life contingencies, fixed deferred annuities ("FDA") and FIA. The account balance for the SPIA without life contingencies is measured as the present value of future payments. The account balance for a FDA is measured at the stated account value before any applicable surrender charges. Additionally, for FIA, there is an associated embedded derivative that is bifurcated from the host contract and measured at fair value, refer above for *Embedded derivative*. For additional information regarding policyholder account balances, see *Note 6. Insurance Liabilities*.

Policy Benefit Reserves

The Policy benefit reserve includes life contingent SPIA products classified as limited payment contracts. The reserve is measured as the present value of estimated future policy benefits and related expenses less the present value of future net premiums.

Limited payment contracts are similar to traditional long-duration contracts except that the premium payment period is significantly shorter than the period in which benefits are expected to be paid. As a result, a deferred profit liability ("DPL") is recognized to represent the portion of gross premiums received in excess of the net premiums and is recorded in the Policy benefit reserves on the Balance sheets. This results in revenues being deferred and recognized over the lifetime of the contracts.

The Company acquires contracts through assumed reinsurance only. For in-force reinsurance agreements, the Company groups contracts in a single-issue year as of the date of inception of the reinsurance agreement. New flow business agreements are grouped by issue year applying the "look through" approach to the underlying contracts.

The Company performs an annual in-depth review and updates the cash flow assumptions used in the measurement of the policy benefit reserve during the third quarter. Trending of experience and high-level assessment of assumptions is performed quarterly, with updates made more frequently if deemed necessary.

The discount rate for policy benefit reserves is updated at the end of each reporting period using an upper-medium grade fixed income instrument yield that maximizes the use of observable market inputs. When there are unobservable tenors, the last observable market rate is held constant. A reference portfolio of upper-medium grade fixed income yields, commonly referred to as single A-rated corporate bond yields, is used to match the duration characteristics of the reserve. The yield curves utilized by the Company are published by third-party pricing services.

The locked-in accretion rate is set at contract acquisition for in-force business. For new flow business, during the open cohort year, the accretion curve is updated at each reporting period and then locked-in at the end of the year.

The effect of changes to the policy benefit reserve due to changes in the discount rates is recognized in Change in policy benefit reserves attributable to the discount rate on the Statements of comprehensive income (loss). The change in the liability resulting from updating cash flow assumptions is recognized in Insurance policy benefits on the Statements of Income (loss).

Market Risk Benefits
Market risk benefits ("MRBs") are defined as contracts or contract features that both provide protection to the policyholder from other-than-nominal capital market risk and expose the Company to other-than nominal capital market risk. MRBs must provide a benefit to the policyholder in addition to the policyholder account balance or shortfall of the contract holder's account balance from the contract holder to the insurance entity, with such transfer exposing the insurance entity to capital market risk that would otherwise have been borne by the contract holder (or beneficiary).

The Company has features, associated with the FIA and FDA products assumed, that are classified as MRBs. These features include guaranteed minimum death benefits ("GMDB"), guaranteed lifetime withdrawal benefits ("GLWB"), return of premium ("ROP") features, and two-tier annuitization guarantees. MRBs are recorded at fair value measured on an individual contract basis using an option-based valuation model. Fees collectible from policyholders for the Company's current general account products include explicit rider fees. The type and amount of these fees vary depending on the specific product features and fees are only attributed in the model if deemed collectible from the policyholder.

Changes in fair value are recognized in Change in the fair value of market risk benefits, net on the Statements of Income (loss) each period with the exception of the portion of the change in fair value due to a change in the instrument-specific credit risk, which is recognized in Change in market risk benefit on the Statements of comprehensive income (loss). Derecognition of MRBs occurs when the contract annuitizes or the account value is exhausted.

Changes in assumed reserves and MRBs are presented in Insurance policy benefits and Change in the fair value of market risk benefits on the Statements of income (loss), respectively.

Intercompany Receivable and Payable
Intercompany receivable from and payable to affiliated companies is primarily comprised of non-reinsurance related amounts receivable/payable.

See *Note 12. Related Parties* for further details about transactions with affiliated companies.

Long-Term Debt
Long-term debt has contractual or expected maturities greater than one year and the balance at the end of the period is recorded as a liability under long-term debt on the Balance sheets.

See *Note 8. Long-Term Debt* for further details.

Premium Recognition
Premium revenue is recognized over the period of coverage when due from policyholders for limited payment contracts. Gross premiums in excess of net premiums are deferred and recorded as DPL. DPL is amortized in relation to the lifetime of the contract. The Company will accrue interest on the unamortized DPL balance.

Premiums collected for investment contracts are reported as deposits to Policyholder account balances on the Balance sheets.

Product fees and charges
Product fees and charges represent revenues recognized from policy charges for administration, explicit riders and surrender fees charged to policyholders. Product fees and charges are recognized as revenues in the period in which they are assessed against policyholders unless the fees are designed to

compensate the Company for services to be provided in the future. Those fees are recognized as a liability for unearned revenue and are recognized in income over the period benefited using the same assumptions and factors used to amortize DAC. The Company currently does not have any fees that need to be recognized as a liability for unearned revenue.

Other Comprehensive (Loss) Income
Comprehensive (loss) income includes both Net income (loss) and other items of comprehensive (loss) income ("OCI") comprised of Unrealized gains and losses on fixed maturity securities classified as AFS.

In addition, the Company recognizes in OCI any changes in the fair value of the MRBs attributable to instrument specific credit risk and any changes in policy benefits reserve estimate as a result of changes in the discount rate assumption.

Income Taxes
The Company accounts for income taxes under the provisions of authoritative guidance (ASC 740 – *Income Taxes*). ASC 740 requires the recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to become accruable or realizable. When the assessment indicates that it is more likely than not that a portion of a deferred tax asset will not be realized in the foreseeable future, a valuation allowance against deferred tax assets is recorded. The Company recognizes the tax benefits from uncertain tax positions only when the position is more likely than not to be sustained on examination by the relevant taxing authorities, based on the technical merits of the position. For those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Adopted Accounting Pronouncements

Long-Duration Contracts
In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-12, *Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts* ("LDTI"). The objective of this guidance is to improve, simplify and enhance the financial reporting of long-duration contracts by providing financial statement users with useful information in a timely and transparent manner. The primary changes include: (i) more timely recognition of assumption changes in the policy benefit reserves and use of a current rate for discounting of future cash flows; (ii) standardization and improvement in the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts (referred to as market risk benefits); (iii) simplification of the amortization of deferred acquisition costs; and (iv) enhanced disclosures.

The Company early adopted LDTI and applied the guidance to its long-duration contracts as the Company initially recognized these contracts during 2022. As a result, LDTI modified retrospective and retrospective transition guidance and related disclosures are not applicable.

The Company disaggregates its disclosures on long-duration contracts at the product level as it reflects management's views on its business. The two disaggregated categories include:
- Deferred Annuities – consists of FIAs, FDAs and related MRBs and other features.
- SPIA – consists of life contingent and non-life contingent SPIAs.

Income Taxes – Simplifying the Accounting for Income Taxes
On December 18, 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2019-12, *Income Taxes (Topic 740)*, simplifying the Accounting for Income Taxes by eliminating certain exceptions to the tax accounting guidance related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of

deferred tax liabilities related to foreign investment ownership changes. It also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill and allocating income taxes to separate financial statements of entities not subject to income tax. The Company adopted this update January 1, 2022. The adoption of this update did not have a material effect on the financial statements.

Recent Accounting Pronouncements

Financial Instruments – Credit Losses
On March 31, 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. In June 2016, the FASB issued new guidance on the measurement of credit losses on financial instruments. This guidance replaces the incurred loss impairment methodology with one that reflects expected credit losses. The effective date of this standard for the Company is the fiscal year beginning after December 15, 2022. The Company is currently evaluating the impact of adopting this guidance on its financial statements and disclosures.

3. Investments

AFS Securities

The following table represents the amortized cost, gross unrealized gains and losses and fair value of the Company's AFS investments by asset type:

	December 31, 2022			
(U.S. dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate	$ 556,589	$ 2,224	$ (29,182)	$ 529,631
State and municipal	10,200	412	-	10,612
CLO	16,000	-	-	16,000
ABS	141,464	88	(7,738)	133,814
CMBS	63,705	-	(2,398)	61,307
RMBS	92,658	503	(1,971)	91,190
Total	**$ 880,616**	**$ 3,227**	**$ (41,289)**	**$ 842,554**

The amortized cost and fair value of AFS securities are shown by contractual maturity below:

	December 31, 2022	
(U.S. dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 30,704	$ 32,015
Due after one year through five years	453,170	429,926
Due after five years through ten years	67,735	62,687
Due after ten years	15,179	15,616
CLO, ABS, CMBS and RMBS	313,828	302,310
Total	**$ 880,616**	**$ 842,554**

Actual maturities can differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Unrealized Losses on AFS Securities

The following summarized the fair value and gross unrealized losses for AFS securities aggregated by asset type and length of time the fair value has remained below amortized cost:

	December 31, 2022					
	Less than 12 months		12 months or more		Total	
(U.S. dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate	$ 529,631	$ (29,182)	$ -	$ -	$ 529,631	$ (29,182)
State and municipal	-	-	-	-	-	-
CLO	-	-	-	-	-	-
ABS	133,814	(7,738)	-	-	133,814	(7,738)
CMBS	61,307	(2,398)	-	-	61,307	(2,398)
RMBS	91,190	(1,971)	-	-	91,190	(1,971)
Total	**$ 815,942**	**$ (41,289)**	**$ -**	**$ -**	**$ 815,942**	**$ (41,289)**

The unrealized losses on AFS securities can primarily be attributed to changes in market interest rates since acquisition. The Company did not recognize the unrealized losses in the Statement of income (loss) as the intent is to hold these securities and it is not more likely than not that the Company will be required to sell a security before the recovery of its amortized cost.

As of December 31, 2021, the Company does not have any AFS investments.

In connection with the reinsurance agreement with MYGA, an Overcollateralization Trust (“OC Trust”) was established for the sole benefit of the cedant to further secure the obligations of the Company as Reinsurer. As of December 31, 2022 the OC Trust held assets with a carrying value $51,042 which are part of AFS securities.

Net Investment Income

Net investment income by asset class consists of the following:

(U.S. dollars in thousands)	December 31 2022
AFS Securities	$ 26,918
Equity Securities	-
Policy loans	1,765
Other Investments	3,275
Mortgage loans	1,842
Funds withheld at interest	571,193
Cash and Cash Equivalents	757
Investment revenue	605,750
Investment expense	(55,187)
Net Investment income	**$ 550,563**

Investment Related (Losses) Gains

Investment related (losses) gains by asset class consists of the following:

(U.S. dollars in thousands)		December 31 2022
AFS Securities		
Gross realized gains on investment activity	$	686
Gross realized losses on investment activity		(11,346)
Net realized gains (losses) on AFS securities		(10,660)
Equity securities		
Net realized gains (losses)		-
Net change in unrealized gains (losses)		390
Funds withheld at interest		
Net realized gains (losses)		(503,118)
Net change in unrealized gains (losses)		(1,713,120)
Investment related gains (losses)	**$**	**(2,226,508)**

Proceeds from sales of AFS securities were $ 296,598 for the year ended December 31, 2022.

The Company has not recognized any investment income or investment related (losses) gains for the period ended December 31, 2021.

Mortgage Loans

The Company primarily invests in commercial mortgage loans on income producing properties. The commercial mortgage loan portfolio as of December 31, 2022 consists of a single commercial mortgage loan with a carrying value $54,498. The loan was originated in the year 2022 for multi-family property type in the United States region. As of December 31, 2022, it is not 30 days or more past due.

The Company evaluates the mortgage loans based on relevant current information to confirm if the property is performing at a consistent and acceptable level to secure the related debt and no impairment charge is recorded for the year ended December 31, 2022.

The Company utilizes loan-to-value and debt service coverage ratio to assess the risk and quality of the commercial mortgage loan. The loan-to-value ratio is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A loan-to-value ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. The debt service coverage ratio is expressed as a proportion of a property's net operating income to its debt service payments. A debt service ratio of less than 1.0 indicates a property's operations do not generate enough income to cover debt payments.

As of December 31, 2022, the Company's loan to value and debt service coverage ratio is 53% and 1.00x respectively. As of December 31, 2021, the Company does not have any investments in mortgage loans.

4. Fair Value

Fair value is the price that the Company would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. The Company prioritizes the inputs used in valuation techniques into the following three levels:

> Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities that the reporting entity can access at the measurement date.
>
> Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets,
- Observable inputs for identical or similar assets in markets that are not active, and
- Inputs other than quoted price that are observable for the asset of liability.

Level 3 – Prices or valuation techniques with unobservable inputs significant to the overall fair value estimate in situations where there is no or little market activity for the asset or liability. The Company uses critical assumptions and estimates about assumptions that a market participant would use in pricing the asset or liability. Level 3 valuations are based on market standard valuation methodologies, including discounted cash flows or other similar techniques.

Certain other investments are measured using the practical expedient, to estimate fair value by using the Net Asset Value (NAV) and are not classified in the fair value hierarchy. The carrying value reflects the Company's pro rata ownership percentage as indicated by NAV in the investment fund financial statements, which may be adjusted if the Company determines NAV is not calculated consistent with investment company fair value principles. The underlying investments of the investment funds may have significant unobservable inputs, which may include but are not limited to, comparable multiples and weighted average cost of capital rates applied in valuation models or a discounted cash flow model.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). In cases, the inputs used to measure fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company uses several valuation sources to determine fair values. Valuation sources can include quoted market prices; third-party brokers; third-party commercial pricing services; industry-standard, vendor modeling software that uses market observable inputs; and other internal modeling techniques based on projected cash flows. The assumptions and inputs of third-party commercial pricing services are periodically reviewed through internal valuation price variance reviews, comparisons to internal pricing models, back testing to recent trades, or monitoring trading volumes.

The below table represents the hierarchy for the Company's assets and liabilities measured at fair value on a recurring basis:

	December 31, 2022				
(U.S. dollars in thousands)	**Total**	**NAV**	**Level 1**	**Level 2**	**Level 3**
Assets					
AFS securities					
Corporate	$ 529,631	$ -	$ -	$ 512,787	$ 16,844
State and municipal	10,612	-	-	10,612	-
CLO	16,000	-	-	16,000	-
ABS	133,814	-	-	133,814	-
CMBS	61,307	-	-	61,307	-
RMBS	91,190	-	-	91,190	-
Total AFS Securities	842,554	-	-	825,710	16,844
Equity securities	20,390	-	-	20,390	-
Other investments	138,276	49,012	-	6,455	82,809
Funds withheld at interest	14,887,975	65,898	420,205	13,968,794	433,078
Cash and cash equivalents	304,229	-	154,790	149,439	-
Market risk benefits assets	11,806	-	-	-	11,806
Total assets measured at fair value	**$ 16,205,230**	**$ 114,910**	**$ 574,995**	**$ 14,970,788**	**$ 544,537**

(U.S. dollars in thousands)	December 31, 2022 Total	NAV	Level 1	Level 2	Level 3
Liabilities					
Policyholder account balance					
Embedded derivative	$ 1,398,053	$ -	$ -	$ -	$ 1,398,053
Market risk benefits liabilities	284,971	-	-	-	284,971
Total liabilities measured at fair value	$ 1,683,024	$ -	$ -	$ -	$ 1,683,024

As of December 31, 2021, the Company's assets and liabilities measured at fair value consisted of level 1 cash and cash equivalents amounting to $306,295.

Fair Value Valuation Methods

The Company uses the following valuation methods and assumptions to estimate fair value at each reporting period end:

AFS securities

The Company obtains the fair value for marketable securities without an active market from third-party commercial pricing services and classifies them as Level 2 assets. The third-party commercial pricing services utilizes a variety of market observable information in the fair valuation techniques, including benchmark yields, trading activity, credit quality, issuer spreads, bids, offers and other reference data. This category typically includes corporate bonds, CLO, ABS, CMBS and RMBS.

The Company fair values their fixed maturity securities based on indicative broker quotes or by utilizing valuation models widely accepted by market participants. For certain fixed maturity securities, the valuation model uses significant unobservable inputs and are classified as Level 3 in the fair value hierarchy. Unobservable inputs used include, not limited to, discount rates, issuer specific credit adjustments, non-public financial information, projected earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers.

The Company fair values their privately placed fixed maturity securities based on the credit quality and duration of comparable marketable securities, that is, securities with similar characteristics issued by another issuer. In some instances, the Company employs a matrix-based pricing model. Such models consider the current level of risk-free interest rates, corporate spreads, credit quality of the issuer and cash flow characteristics of the security. In addition, net worth of the borrower, value of collateral, capital structure of the borrower, presence of guarantees and the Company's evaluation of the borrower's ability to compete in its relevant market are considered as additional factors for fair value measurement. All privately placed fixed maturity securities are classified as Level 2 or 3 in the fair value hierarchy.

Equity securities

The Company uses the quoted market prices in identical markets for publicly traded equity securities and classifies these as Level 1. Other private equity securities or securities that are not traded or actively traded on exchange are valued using the third-party commercial pricing services or brokers and are classified as Level 2 or 3.

Funds withheld at interest

Funds withheld at interest includes the fair value of the embedded derivative, which is estimated based on the change in the fair value of the assets supporting the reinsurance agreements. As a result, the fair value level is based on the valuation methods used for the underlying assets and is classified as Level 1, 2, 3 or using the NAV practical expedient.

Cash and cash equivalents

The carrying amount for cash equals fair value and is classified as Level 1.

Market risk benefit assets and liabilities

Market risk benefits are measured at fair value and are classified as Level 3 as unobservable inputs are used to measure MRBs. See *Note 2* for further discussion on measurement of MRBs.

Level 3 Financial Instruments

The below table provides reconciliations for Level 3 assets and liabilities measured at fair value on a recurring basis. The tables below exclude market risk benefit assets and liabilities which include similar disclosures within *Note 7. Market Risk Benefits*

The below table represents the gross components of purchases, issuances, sales and settlements, net, and net transfers in (out)shown above:

	December 31, 2022					
		Unrealised gains (losses)				
(U.S. dollars in thousands)	Beginning balance	Included in income	Included in OCI	Net purchases, issuances, sales and settlements	Net transfers in (out)	Ending balance
Assets						
AFS securities						
Corporate	$ -	$ -	$ 1,328	$ 15,516	$ -	$ 16,844
Total AFS securities	-	-	1,328	15,516	-	16,844
Other investments	-	(1,393)	-	84,202	-	82,809
Funds withheld at interest	-	(30,613)	-	463,691	-	433,078
Total level 3 assets measured at fair value	$ -	$ (32,006)	$ 1,328	$ 563,409	$ -	$ 532,731
Liabilities						
Policyholder account balance						
Embedded derivative	$ -	$ 14,161	$ -	$ 1,383,892	$ -	$ 1,398,053
Total level 3 liabilities measured at fair value	**$ -**	**$ 14,161**	**$ -**	**$ 1,383,892**	**$ -**	**$ 1,398,053**

Significant Unobservable Inputs

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

AFS securities and Other Investments

The Company uses discounted cash flow models for certain AFS securities and Other Investments to calculate the fair value. The discount rate is treated as a significant unobservable input as the credit spread includes adjustments made to the base rate. The base rate represents a reference rate for securities with similar characteristics. An increase in the discount rate can lower the fair value and a decrease in the discount rate can increase the fair value. As of December 31, 2022, for certain AFS securities, discount rates ranged from 5.7% - 8.2% with a weighted average discount rate of 7.2% and for Other Investments, discount rates ranged from 8.5% - 20.0% with a weighted average discount rate of 16.4%. This excludes assets for which fair value is provided by independent broker quotes.

Policyholder account balance liabilities

The Company utilizes significant unobservable inputs to measure the fair value of the FIA embedded derivative of the Policyholder account balance liabilities. Such unobservable inputs include:

1. Nonperformance risk: The Company uses the credit spread for the contracts issued, relative to the US Department of the Treasury curve based on credit ratings from publicly traded insurance companies as of the valuation date. This represents the Company's credit risk for use in the estimate of the fair value of embedded derivatives. As of December 31, 2022, the nonperformance risk ranged from 0 to 201 basis points.
2. Option budget: The Company assumes future hedge costs in the derivative's fair value estimate. The level of option budgets determines the future costs of the options and impacts future policyholder account value growth. As of December 31, 2022, the option budget assumption ranged from 1.1% - 3.3%.
3. Policyholder behavior: The Company regularly reviews the lapse and surrender rate assumptions. Such review is based on the Company's initial pricing assumptions updated for actual experience. Actual experience may be limited for recently issued products. As of December 31, 2022, the base lapse assumption ranged from 0.15% - 90% for policies without an MRB feature and 0.15% to 13.5% for policies with an MRB feature.

Fair Value of Financial Instruments Not Carried at Fair Value

The below table represents the Company's financial instruments not carried at fair value on the Balance sheets:

	December 31, 2022					
(U.S. dollars in thousands)	**Carrying Value**	**Fair Value**	**NAV**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Policy loans	$ 26,905	$ 26,905	$ -	$ -	$ 26,905	$ -
Mortgage loans	54,498	54,498	-	-	-	54,498
Total financial assets not carried at fair value	$ 81,403	$ 81,403	$ -	$ -	$ 26,905	$ 54,498
Financial liabilities						
Policyholder account balance	$ 14,994,832	$ 14,925,979	$ -	$ -	$ -	$ 14,925,979
Long-term debt	221,000	-	-	-	221,000	-
Total financial liabilities not carried at fair value	**$ 15,215,832**	**$ 14,925,979**	**$ -**	**$ -**	**$ 221,000**	**$ 14,925,979**

The Company estimates the fair value for financial instruments not carried at fair value using the same methods and assumptions as those carried at fair value. The financial instruments presented above are reported at carrying value on the Balance sheets, whereas in the case of Policy loans, Mortgage loans, and Long-term debt, the carrying amount approximates the fair value.

Policyholder account balance liabilities

The carrying and fair value of policyholder account balance liabilities above include FIA and FDA without insurance risks (mortality or morbidity), and payout annuities without life contingencies. The FIA embedded derivative is excluded as they are carried at fair value. The fair value is determined using a discounted cash flow model at current market risk-free interest rates, plus the Company's nonperformance risk less a risk margin to reflect uncertainty inherent in the projected cash flows.

5. Deferred Acquisition Costs

The assumptions used to project the DAC amortization basis are consistent with the best estimate assumptions used in the liability calculations. In the year ended December 31, 2022, there was an update to the dynamic lapse assumption, that is full surrenders, which impacted the constant level amortization basis. All other assumptions continue to be consistent with those used in the original recognition of the Reinsured Business.

The following table presents a roll forward of deferred policy acquisition costs related to long duration contracts for the year ended December 31, 2022:

(U.S. dollars in thousands)	**Deferred Annuities**
Balance at December 31, 2021	$ -
Effect of changes from model refinements	-
Reinsured Business	254,859
Capitalization related to MYGA	105,035
Amortization expense	(41,154)
Balance at December 31, 2022	**$ 318,740**

The DAC balance is recorded in deferred acquisition costs on the Balance sheets.

6. Insurance Liabilities

Policy Benefit Reserves

Mortality is the significant assumption input, in addition to current and interest accretion discount rates, to the calculation of the Company's policy benefit reserves. Experience suggests the best estimate assumptions, as set during the transaction pricing for the Reinsured Business, continue to be appropriate and no changes were subsequently made in the year ended December 31, 2022.

The following table presents the balances and changes in the policy benefit reserves and a reconciliation of the net policy benefit reserves to the Policy benefit reserves line in the Balance sheets for the year ended December 31, 2022:

(U.S. dollars in thousands)	Single Premium Immediate Annuities
Present value of expected policy benefits	
Liability for policy benefit reserves at December 31, 2021	**$ -**
Reinsured business at February 1, 2022 at original discount rate	**118,661**
Effect of changes in cash flow assumptions	-
Effect of actual variances from expected variances	(1,160)
Adjusted balance at December 31, 2021	**117,501**
Issuances	9,494
Interest accrual	2,777
Benefit payments	(14,255)
Ending balance at original discount rate	**115,517**
Effect of changes in discount rate assumptions	(14,839)
Balance at December 31, 2022	**100,678**
Deferred profit liability	1,589
Balance, per statement of financial position	**$ 102,267**

Gross premiums and interest accretion recorded in the Statements of income (loss) is $14,327 and $2,777, respectively, for the year ended December 31, 2022.

There has been no adverse development during the period.

The following table presents the amount of undiscounted expected future benefit payments and expected gross premiums for future policy benefits for non-participating contracts as of December 31, 2022:

(U.S. dollars in thousands)	Single Premium Immediate Annuities
Expected future benefit payments and expenses, undiscounted	**$ 143,616**
Expected future gross premiums, undiscounted	-
Expected future benefit payments and expenses, discounted	**$ 100,678**
Expected future gross premiums, discounted	-

The following table presents the actual versus expected experience for mortality as of December 31, 2022:

	Single Premium Immediate Annuities
Actual experience	**9.22%**
Expected experience	**5.57%**

The following table presents the calculation of weighted-average interest rates and liability duration for future policy benefits for non-participating contracts as of December 31, 2022:

	Single Premium Immediate Annuities
Interest accretion rate	**2.65%**
Current discount rate	**5.19%**
Weighted-average liability duration	**6.80**

Policyholder Account Balances

The following table presents the balances of and changes in policyholder account balances for the year ended December 31, 2022:

(U.S. dollars in thousands)	Deferred Annuities	Single Premium Immediate Annuities	Total
Balance at December 31, 2021	**$ -**	**$ -**	**$ -**
Reinsured Business	14,076,960	111,238	14,188,198
Issuances	3,533,795	47,284	3,581,079
Premiums received	413,667	-	413,667
Policy charges	(35,859)	-	(35,859)
Surrenders and withdrawals	(1,581,420)	-	(1,581,420)
Free look surrender	(64,056)	-	(64,056)
Benefit payments	(345,819)	(41,739)	(387,558)
Interest credited	275,782	1,701	277,483
Other	1,351	-	1,351
Balance at December 31, 2022	**$ 16,274,401**	**$ 118,484**	**$ 16,392,885**
Weighted average crediting rate	2.23%	-	2.23%
Net amount at risk	$ 1,197,950	$ -	$ 1,197,950
Cash surrender value	$ 15,660,883	$ -	$ 15,660,883

The following table presents policyholder account balances, excluding the indexed component of the FIAs, by range of guaranteed minimum crediting rates and the related range of difference, in basis points, between rates being credited to policyholders and the respective guaranteed minimums as of December 31, 2022:

(U.S. dollars in thousands)	Range of guaranteed minimum crediting rate	At guaranteed minimum	1 basis point - 50 basis points above	51 basis points - 150 basis points above	Greater than 150 basis points above	Total
Deferred Annuities	1.00%-2.00%	$ 744,803	$ 441,216	$ 832,326	$ 1,393,209	$ 3,411,554
	2.00%-3.00%	727,822	404,016	1,872,186	-	3,004,024
	3.00%-4.00%	767,509	903,485	249,646	-	1,920,640
	Greater than 4.00%	13,727	-	-	-	13,727
	Total	**$ 2,253,861**	**$ 1,748,717**	**$ 2,954,158**	**$ 1,393,209**	**$ 8,349,945**

7. Market Risk Benefits

Best estimate assumptions plus risk margins, for uncertainty inherent in the cash flows, are used in the MRB calculation. During the year ended December 31 2022, there was an update to the best estimate dynamic lapse assumption, that is full surrenders. All other policyholder assumptions continue to be consistent with those used for the reinsurance transaction pricing. Risk margins are applied to mortality, lapse, and GLWB utilization; no changes to risk margins were made during 2022.

The following table presents the balances of and changes in MRB for the year ended December 31, 2022:

(U.S. dollars in thousands)	Deferred Annuities
Balance at December 31, 2021	$ -
Effect of changes in instrument-specific credit risk	-
Balance at December 31, 2021 adjusted	-
Reinsured Business	479,047
Interest accrual	8,106
Attributed fees collected	34,970
Benefit payments	(8,460)
Effect of changes in interest rates	(223,882)
Effect of changes in equity dividend and volatility	(408)
Effect of changes in future expected policyholder behavior	5,749
Other	(2,222)
Balance at December 31, 2022, before effect of changes in the instrument-specific credit risk	**292,900**
Effect of changes in instrument-specific credit risk	(19,735)
Balance at December 31, 2022	**$ 273,165**
Net amount at risk	**$ 1,197,950**
Weighted-average attained age of contract holders	**73.77**

The following table presents a reconciliation of MRB by amounts in an asset position and by amounts in a liability position to the Balance sheets as of December 31, 2022:

(U.S. dollars in thousands)	Asset	Liability	Net
Deferred Annuities	$ 11,806	$ 284,971	**$ 273,165**

In 2022, the following notable changes were made to the financial assumption inputs to the fair value estimates of MRB calculations:

- Interest rates increased during the year leading to a decrease in MRB.
- Equity volatility decreased, leading to a slight decrease in the MRB. Changes in equity and volatility indices do not have a material impact on the MRB balance given the features and benefits included on the Company's block.
- The Company's credit spread widened, leading to a corresponding decrease in the MRB.

The significant unobservable inputs utilized by the Company to measure the fair value of the FIA embedded derivative of the Policyholder account balance liabilities are noted previously within *Note 4. Fair Value.*

The MRB balance is recorded in Market risk benefit assets and Market risk benefit liabilities on the Balance sheets.

8. Long-Term Debt

On June 28, 2022, the Company entered into an unsecured surplus note with its wholly owned parent, the Holding Company in the amount of $221,000. The outstanding principal amount shall be due and payable on June 28, 2027. Interest accrues on the note at a rate equal to Adjusted Term secured overnight financing rate ("SOFR") plus 2% per annum and is payable in arrears. As of December 31, 2022 the outstanding amount of principal is included in Long-term debt, the outstanding payable of interest accrued is included in Intercompany payable of $4,085 on the Balance sheets, and interest due is included in Interest expense of $5,680 on the Statement of income (loss).

9. Equity

Common Stock

The authorized and issued share capital of the Company is $250,000 divided into 250,000 ordinary shares, par value $1 each for the years ended December 31, 2022 and for the period from July 21 to December 31, 2021.

Additional paid-in capital

During the year ended December 31, 2022 and the period of July 21, 2021 to December 31, 2021 the Company received $1,162,197 and $306,045, respectively, in additional capital contributions from its shareholder.

Accumulated other comprehensive income (loss)

The following table presents changes in AOCI for the year ended December 31, 2022:

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(U.S. dollars in thousands)	Unrealized investment gains (losses) on AFS securities	Change in the liability for future policyholder benefits attributable to the discount rate	Change in the market risk benefit attributable to instrument specific credit risk	Accumulated other comprehensive income (loss)
Balance at December 31, 2021	**$ -**	**$ -**	**$ -**	**$ -**
Other comprehensive income (loss) before reclassifications, net of tax*	(38,062)	14,839	19,735	(3,488)
Less: Reclassification adjustments for gains (losses) realized in net income, net of tax*	-	-	-	-
Balance at December 31, 2022	**$ (38,062)**	**$ 14,839**	**$ 19,735**	**$ (3,488)**

** There were no deferred income tax effects noted for the year ended December 31, 2022. Refer to FN 10, "Income Taxes" for more info.*

10. Income Taxes

Under current Bermuda law, no taxes are levied in Bermuda on the Company's receipts, dividends, capital gains or net profit. If such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 31, 2035.

The Company has filed with the Internal Revenue Service ("IRS") an Internal Revenue Code ("IRC") Section 953(d) tax election with its first income tax return filing for the period from July 21 to December 31, 2021. Section 953(d) allows a foreign corporation engaged in the insurance business to elect to be treated as a U.S. corporation for tax purposes. The Company makes income tax payments to the IRS periodically based on taxable income arising from the operations of the Company including both current net income and temporary differences. The Company has evaluated the need for a valuation allowance against its deferred tax assets, considering all available positive and negative evidence. Based on its analysis, the Company concluded that a valuation allowance should be established.

As at December 31, 2022 the Company has a $12,291 income tax receivable and has recognized a pre-valuation allowance deferred tax asset ("DTA") of $409,477. The DTA balance as of December 31, 2022 mainly consists of FWH basis difference, Policy benefit reserves, and Deferred acquisition costs. The Company has evaluated and determined that there are no uncertain tax positions as of December 31, 2022.

Income tax expense consists of the following:

(U.S. dollars in thousands)	**December 31 2022**	**Period from July 21, 2021 to December 31, 2021**
Current		
U.S.	$ -	$ -
Foreign	-	-
Deferred		
U.S.	2,345	(2,345)
Foreign	-	-
Income tax (benefit) expense	$ 2,345	$ (2,345)

The statutory tax rate of 21% has been used for the years ended December 31, 2022 and the period from July 21, 2021 to December 31, 2021. A reconciliation of the difference between the expected tax provision at the statutory tax rate and income tax expense is as follows:

(U.S. dollars in thousands, except for percentages)	**December 31 2022**	**Period from July 21, 2021 to December 31, 2021**
Income (loss) from continuing operations before income taxes:		
U.S.	$ (1,935,494)	$ (11,165)
Foreign	-	-
Total	**$ (1,935,494)**	**$ (11,165)**
Expected tax provision computed on pre-tax income at statutory tax rate	$ (406,454)	$ (2,345)
Increase in income taxes resulting from:		
Deferred tax valuation allowance	408,745	-
Other, net	54	-
Income tax (benefit) expense	$ 2,345	$ (2,345)
Effective tax rate	-0.1%	21.0%

Current income tax recoverable and deferred tax assets are included in Income tax receivable on the Balance sheets, and current income tax payable and deferred tax liabilities are included in other liabilities on the Balance sheets. Current and deferred income tax assets and liabilities were as follows:

(U.S. dollars in thousands, except for percentages)	December 31 2022	Period from July 21, 2021 to December 31, 2021
Current income tax recoverable	$ 12,291	$ -
Current income tax payable	-	-
Net current income tax recoverable (payable)	$ 12,291	$ -
Deferred income tax assets, net of valuation allowance	$ 19,780	$ 2,345
Deferred income tax liabilities	(19,780)	-
Net deferred tax assets	**$ -**	**$ 2,345**

Deferred income tax assets and liabilities consisted of the following:

(U.S. dollars in thousands, except for percentages)	December 31 2022	Period from July 21, 2021 to December 31, 2021
Deferred income tax assets		
Future policyholder benefits	$ 83,241	$ -
Employee compensation	457	-
Net operating loss carryforward	2,143	-
Capital loss carryforward	2,302	-
Funds withheld basis difference	337,852	-
Investments	328	-
Start up cost	2,201	2,345
Unrealized loss (gain)	732	$ -
Other	1	-
Subtotal	429,257	2,345
Valuation allowance	(409,477)	-
Gross deferred income tax assets, net of valuation allowance	**$ 19,780**	**$ 2,345**
Deferred income tax liabilities		
Deferred acquisition cost	19,780	-
Funds withheld basis difference	-	-
Other	-	-
Gross deferred income tax liabilities	**19,780**	**-**
Net deferred income tax assets	**$ -**	**$ 2,345**

The Company evaluates the recoverability of deferred tax assets and establishes a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (a likelihood of more than 50 percent). The evaluation of the recoverability of the deferred tax asset and the need for a valuation allowance requires the Company to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

The Company's framework for assessing the recoverability of deferred tax assets requires consideration of all available evidence, including:

- The nature, frequency, and severity of cumulative financial reporting losses in recent years;

- The predictability of future operating profitability of the character necessary to realize the net deferred tax asset;
- The carry forward periods for the net operating loss and capital loss, including the effect of reversing taxable temporary differences; and
- Prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

The recent changes in market conditions, including rising interest rates, impacted the embedded derivative associated with the Funds Withheld at interest. The Company has recorded a full valuation allowance against its net deferred tax assets.

The Company has a net operating loss ("NOL") carryforward of $10,204 (tax effected $2,143) as of December 31, 2022. The NOL carryforward is not subject to expiration. The Company also has a capital loss carryforward of $10, 960 (tax effected $2,302) as of December 31, 2022. The Capital loss carryforward will expire in 2027 if not used.

The Company's U.S. federal income tax return for 2021 may be selected for review by tax authorities. The Company does not anticipate any material assessments or adjustments to the Company's liability resulting from the tax examinations for the period from July 21, 2021 to December 31, 2021.

Management believes that adequate provision has been made in the financial statements for any potential assessments that may result from tax examinations and other tax related matters for both the period from July 21, 2021 to December 31, 2021 and tax year 2022. Management does not believe that it is reasonably possible that any changes to the balance of unrecognized tax benefits occurring within the next 12 months will result in a significant change to the results of operations, financial condition, or liquidity.

The Company filed a pro-forma Form 1120-PC federal income tax return for the period from July 21, 2021 to December 31, 2021 as it had not yet established any life reserves. For the period from July 21, 2021 to December 31, 2021, the Company joined a consolidated mixed group with the Holding Company.

For tax year 2022, the Company established life reserves and was qualified as a Life Insurance Company. As a result of transitioning from a non-life insurance company to a life insurance company, the Company became an ineligible corporate for a life/nonlife consolidated filing group under Treas. Reg. 1.1502-47(b)(13) as it would not have satisfied the five-year waiting period under Treas. Reg. 1.1502-47, nor does it satisfy the requirements under the "tacking" rule to be deemed eligible. Further, any income/loss generated during the five-year waiting period from the Company cannot be used to offset the Holding Company's loss/income. The Company will join the life/nonlife filing group with the Holding Company in tax year 2027.

The Tax Cuts and Jobs Act provides a base erosion and anti-abuse tax ("BEAT") which represents minimum tax calculated on a base equal to the taxpayer's taxable income determined without regard to: (1) the tax benefits arising from base erosion payments, and (2) the applicable base erosion percentage of any NOL allowed for the tax year. The BEAT rate is 10% for tax years beginning in 2019 through 2025 and 12.5% for tax years beginning after December 21, 2025. The Company is a member of an "Aggregate Group" within the meaning of the IRC and the Aggregate Group's base erosion payments are less than 3% of the Aggregate Group's total deductions for the years ended December 31, 2022 and 2021. Accordingly, the BEAT liability was $0 for the years ended December 31, 2022 and 2021.

On August 16, 2022, President Biden signed into law the Inflation Reduction Act (the "Act"). Effective for tax years beginning after December 31, 2022, the Act includes a new corporate alternative minimum tax ("CAMT") on certain corporations. The Company has determined, as of the reporting date, that they will not be subject to the CAMT in 2023.

11. Statutory Requirements
The Company operates in Bermuda and is licensed by the Bermuda Monetary Authority ("BMA") as a long-term insurer and is subject to the Insurance Act 1978, as amended. The Company is prohibited from paying in any fiscal year dividends of more than 25% of its prior years' statutory capital and surplus without an affidavit signed by two Directors and the Principal Representative attesting that a dividend in excess of this amount would not cause the Company to fail to meet its relevant margins. Similarly, attestation to the BMA is required before any reduction of statutory capital by more than 15% based on the previous year statutory capital.

The Company is licensed as a Class E Long-term insurer under the Act and is required to maintain a minimum statutory solvency margin ("MSM") and minimum economic statutory capital and surplus to meet the enhanced capital requirement ("ECR"). The MSM is equal to the greater of (i) $8,000 (ii) 2% of the first $500,000 of assets plus 1.5% of assets above $500,000 or (iii) 25% of ECR. The ECR is calculated based on a standard risk-based capital model developed by the BMA.

As of December 31, 2022 and 2021, the Company is required to maintain an estimated minimum statutory capital and surplus of $278,377 and $8,000, respectively. The actual statutory capital and surplus, as determined using statutory accounting principles is $1,530,077 and $297,475 as of December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, the Company's ECR and target capital level of 120% of ECR have been met.

12. Related Parties
The Company enters into transactions with its related parties. These transactions include reinsurance agreements, services and expense agreement, long term debt agreement, investment agreement and administrative agreement.

On September 1, 2022 the Company entered into a Services and Expense Agreement with Martello Re Services Company LLC ("ServiceCo") to receive certain services as may be agreed from time to time, such as executive management support, management of operations and resources, actuarial services, production of financials and management reporting, and management of investments. Fees incurred under this agreement are reflected in operating expenses in the Statement of income (loss) was $1,218 for the year ended December 31, 2022.

On December 30, 2021, the Company entered into investment management with Barings, LLC ("Barings") and Centerbridge Martello Advisors LLC ("Centerbridge") to support the Company's investment management and asset allocation strategy. Investment management expenses incurred are reflected in Net investment income in the Statement of income (loss) was $26,470 and $4,375 with Barings and Centerbridge for the year ended December 31, 2022, respectively.

Incrementally, on December 30, 2021, the Holding Company, entered into an administrative services agreement with Barings and Centerbridge to support administrative services in managing the Martello group of companies. These services are for the primary benefit of the Company. As such, the Company pays the Holding Company a new business expense in arrears, each calendar quarter. The new business fee expenses reflected within Net investment income on the statement of income (loss) was $16,296 for the year ended December 31, 2022. The related payable is included within Accounts payable and other accrued expenses in the Balance sheets was $4,539 as of December 31, 2022.

See *Note 1 Nature of Business* for additional details of reinsurance transactions entered into with related parties.

See *Note 8 Long-term* Debt for additional details of the Company's long-term debt with a related party.

13. Contingencies, Commitments and Guarantees

The Company has made commitments to fund investments in the form of capital contributions in the amount of $17,135 as of December 31,2022. These commitments may become due upon the counterparty's request. There are no material contingent liabilities arising from litigation, income taxes or other matters, other than liabilities arising in the normal course of its business of reinsurance.

14. Subsequent Events

The Company has evaluated the effects of events subsequent to December 31, 2022 for recognition and disclosure, through May 4, 2023, which is the date the financial statements were available to be issued and determined there were none.