Financial Statements and Report of Independent Certified Public Accountants

Oceanview Bermuda Reinsurance Ltd.

For the year ended December 31, 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Oceanview Bermuda Reinsurance Ltd.

Opinion

We have audited the financial statements of Oceanview Bermuda Reinsurance Ltd. (a Bermuda limited corporation) (the “Company”), which comprise the balance sheet as of December 31, 2022, and the related statements of operations, changes in stockholders’ equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our 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.

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Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Grant Thornton LLP

Hartford, Connecticut
June 1, 2023

Oceanview Bermuda Reinsurance Ltd.

BALANCE SHEET

December 31, 2022

(U.S. Dollars in Thousands, Except Share and Per Share Data)

	2022
Assets:	
Cash and cash equivalents	$ 5,656
Deferred tax asset, net	4,109
Funds withheld asset, at fair value	458,660
Total assets	$ 468,425
Liabilities:	
Insurance reserves, at fair value	$ 446,091
Accounts payable and accrued expenses	4,137
Total liabilities	450,228
Stockholders' Equity:	
Common stock, par value $1.00 per share, 250,000 shares authorized, issued, and outstanding	250
Additional paid-in capital	18,000
Accumulated deficit	(53)
Total stockholders' equity	18,197
Total liabilities and stockholders' equity	$ 468,425

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

Oceanview Bermuda Reinsurance Ltd.

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2022

(U.S. Dollars in Thousands)

		2022
Expenses:		
General and administrative	$	25
Professional fees		42
Total expenses		67
Loss before income taxes		(67)
Income tax benefit		(14)
Net loss	$	(53)

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

Oceanview Bermuda Reinsurance Ltd.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Year Ended December 31, 2022

(U.S. Dollars in Thousands, Except Share and Per Share Data)

	Number of Shares	Common stock $1.00 par value	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at January 1, 2022	250,000	$ —	$ —	$ —	$ —
Net loss	—	—	—	(53)	(53)
Capital contribution	—	250	18,000	—	18,250
Balance at December 31, 2022	250,000	$ 250	$ 18,000	$ (53)	$ 18,197

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

Oceanview Bermuda Reinsurance Ltd.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2022

(U.S. Dollars in Thousands)

		2022
Cash flows from operating activities:		
Net loss	$	(53)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred tax benefit		(4,109)
Net change in:		
Payments for ceding commission on funds withheld contract		(12,569)
Accounts payable and accrued expenses		4,137
Net cash used in operating activities		(12,594)
Cash flows from financing activities:		
Capital contribution		18,250
Net cash provided by financing activities		18,250
Net increase in cash and cash equivalents		5,656
Cash and cash equivalents, beginning of year		—
Cash and cash equivalents, end of year	$	5,656
Supplemental disclosure of cash flow information:		
Deposits on investment-type contracts through reinsurance agreement	$	458,660

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2022

NOTE A – ORGANIZATION

Oceanview Bermuda Reinsurance Ltd. (“OBR” or the “Company”) is an exempted company incorporated in Bermuda on October 21, 2021, and began operations on December 28, 2022. The Company is 75% owned by Oceanview Reinsurance Ltd. (“OVRe”), a Bermuda exempted company incorporated on April 20, 2018, with limited liability, and 25% owned by Oceanview U.S. Holdings Parent LLC. (“OVUSHP”), a U.S. Delaware limited liability company incorporated on January 12, 2022. Both OVRe and OVUSHP are directly held subsidiaries of Oceanview Holdings Ltd. (“OVH”), a Bermuda exempted company incorporated on February 22, 2018. The parent of OVH is Bayview Opportunity Fund V Oceanview L.P. (the “Fund”), a Bermuda limited partnership. The general partner of the Fund is a wholly-owned subsidiary of Bayview Asset Management, LLC (“Bayview”). The Company was formed for the purpose of providing traditional reinsurance, including individual and group life and annuity reinsurance. On December 28, 2022, the Company obtained its certificate of registration as a Class E insurer under the Insurance Act 1978 from the Bermuda Monetary Authority (“BMA”).

Oceanview Asset Management, LLC. (“OAM” or the “Management Company” and a wholly-owned subsidiary of Bayview), a Delaware limited liability company, provides investment advice and directs the investments of the Company (“Portfolio Assets”). See Note G – Related Party Transactions.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include the valuation of funds withheld asset and insurance reserves. Actual results could differ from the estimates.

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 and certain cash amounts were in bank accounts insured by the FDIC up to $250,000. The Company is exposed to losses in excess of the FDIC insured amount.

Reinsurance

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

Funds Withheld Reinsurance Contracts at Fair Value

In accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") ASC 825-10-15-4, Financial Instruments, the Company elected to carry assets and liabilities associated with reinsurance contracts at fair value. This election is made on a contract-by-contract basis. For those contracts for which this election is made, assets and liabilities associated with the reinsurance contract are carried at fair value with the change in the fair value of the assets and the liabilities recorded in income from reinsurance on the statement of operations. This reduces earnings volatility in the accounting of the reinsurance agreements.

The Company's funds withheld asset consists of one arrangement with an affiliated insurer (refer to Note C – Funds Withheld Asset and Note G – Related Party Transactions for further details). Under this arrangement, the Company assumed via reinsurance certain insurance reserves with premiums withheld by the cedant under provisions of the reinsurance agreement. Although the assets in funds withheld are legally owned by the cedant, the assets are separated from the general account of the cedant and all economic rights and obligations of the assets accrue to the Company. The withheld premium is invested in accordance with the reinsurance treaty and the Company's investment guidelines. The Company carries the funds withheld asset at fair value based on the fair value of the underlying assets.

The fair value related to fund withheld reinsurance liabilities is determined using the income approach allowed under ASC 820. The income approach uses present value techniques to convert future amounts (premiums, policyholder benefits, expense allowances, commissions, and other contractual inflows and outflows) to a single present amount. The objective of the measurement is to arrive at the value of the reinsurance contracts indicated by market expectations on the effective date of the financial statements.

The liability cashflows associated with the funds withheld reinsurance contracts are generated using best-estimate assumptions for mortality, surrender, partial withdrawals, and expenses. In these cashflows, 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 economic conditions.

The Company uses market yields on the underlying assets plus risk margins to develop discount rates for the present value technique. The discount rates are composed of:

- Risk-free rate, plus
- Non-performance risk spread, less
- Risk margin to reflect uncertainty

The non-performance risk spread is associated with the risk that the liability obligations will not be fulfilled. This is derived from the spread earned on the underlying assets and reflects the Company's own credit risk.

The risk margin is reflective of the uncertainty of risks associated with the cashflows and non-performance risk spread.

Income Taxes

The Company has elected to be taxed as a U.S. taxpayer under section 953(d) of the Internal Revenue Code ("IRC"). The Company accounts for U.S. federal income tax in accordance with ASC 740, *Income Taxes*, which requires that deferred income tax balances be recognized based on the differences between the financial statement and income tax bases of assets and liabilities using the enacted income tax rates. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Deferred income taxes arise from taxable or deductible temporary differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740. The guidance provides an interpretation of how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. As required, the Company recognizes the financial statement benefit of a tax position only after determining that the U.S. tax authority, The Internal Revenue Service ("IRS"), would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the IRS. At December 31, 2022, the Company did not record an accrual for any material uncertain tax positions.

The Company does not have any tax returns open for examination by the IRS. Tax regulations are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company's policy is to classify interest and penalties related to income taxes (if any) as other operating expenses within the statements of operations.

Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses*. This new guidance replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The guidance also requires enhanced disclosures. This guidance is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the financial statements.

Recent Adopted Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. The guidance requires the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The guidance retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under previous GAAP. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly from previous GAAP. This new guidance is effective for fiscal years beginning after December 15, 2021. This accounting standard was adopted on January 1, 2022 and did not have a material impact on the Company's financial statements.

NOTE C – FUNDS WITHHELD ASSET

At December 31, 2022, the Company's funds withheld assets were comprised of one agreement which relates to reinsurance with an affiliated insurer under common control, Oceanview Life and Annuity Company ("OVLAC"), rated "A-" by A.M. Best. See NOTE G – Related Party Transactions for further details.

At December 31, 2022, the funds withheld asset was comprised of the following underlying assets (U.S. dollars in thousands):

		Total	% of Total
Commercial mortgage loans	$	55,075	12.01 %
Preferred shares		27,258	5.94 %
US corporate bonds		48,190	10.51 %
Non-agency mortgage-backed securities		84,016	18.32 %
Derivatives		594	0.13 %
Cash		243,527	53.10 %
	$	458,660	100.00 %

NOTE D – FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurement and Disclosures*, provides a framework for measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. Investments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values as follows:

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

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

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

The balance of assets and liabilities measured at fair value as of December 31, 2022, is as follows (U.S. dollars in thousands):

Assets	Level 1	Level 2	Level 3	Total
Funds withheld asset	$ 243,527	$ 160,058	$ 55,075	$ 458,660
Total assets at fair value	$ 243,527	$ 160,058	$ 55,075	$ 458,660

Liabilities	Level 1	Level 2	Level 3	Total
Insurance reserves	$ —	$ —	$ 446,091	$ 446,091
Total liabilities at fair value	$ —	$ —	$ 446,091	$ 446,091

The following summarizes the quantitative inputs and assumptions used for items categorized as Level 3 of the fair value hierarchy as of December 31, 2022 (U.S. dollars in thousands):

Description	Fair Value	Valuation Technique	Unobservable Input	
Funds withheld asset – small balance commercial mortgages	$ 55,075	Discounted cash flows	Weighted average spread	4.08%
			Probability of default	11.00%
			Loss severity	24.00%
Insurance reserves, at fair value	$ 446,091	Discounted cash flows	Weighted average Non-performance risk spread	2.46%
			Risk margin to reflect uncertainty	0.50%

NOTE E – INCOME TAXES

The income tax benefit for the year ended December 31, 2022, is as follows (U.S. dollars in thousands):

		2022
Current – Federal	$	4,095
Deferred – Federal		(4,109)
Income tax benefit	$	(14)

The current tax payable of $4,095 thousand has been included in accounts payable and accrued expenses on the balance sheet.

The reconciliation of the income tax provision is as follows (U.S. dollars in thousands):

		2022
Tax benefit at statutory rate	$	(14)
Tax effect of:		
Permanent differences		—
Change in valuation allowance		—
Income tax benefit	$	(14)

Net deferred income tax assets and liabilities consisted of the following (U.S. dollars in thousands):

		2022
Deferred tax assets:		
Accrued expenses	$	2
Discounted Reserves		6,481
Total deferred tax assets		6,483
Deferred tax liability:		
GAAP-to-statutory adjustments		2,374
Total deferred tax liability		2,374
Net deferred tax asset	$	4,109

At December 31, 2022, the Company had no carryforwards for net operating loss, general business credit, and foreign tax credit. At December 31, 2022, the Company had no liability for unrecognized tax benefits and was not under audit by the IRS or any state authority. The Company is filing a stand-alone U.S. federal income tax return in accordance with the provisions of the IRC. On August 16, 2022, the U.S. Government passed 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. As of December 31, 2022, the Company had not determined if it will be subject to the CAMT in 2023.

NOTE F – STOCKHOLDERS' EQUITY

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

Additional paid in capital
During the year ended December 31, 2022, the Company received additional $18 million of capital contributions from its stockholders.

NOTE G – RELATED PARTY TRANSACTIONS

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

Affiliate Expenses

The Management Company provides investment advice and directs the investments in Portfolio Assets. The Management Company is paid a fixed asset management fee for its services, payable in advance on the first day of each month. The Management Company may, in its sole discretion, reduce or waive the asset management fee for any period.

Reinsurance Agreements

The Company has entered into one funds withheld reinsurance agreement with OVLAC, an affiliate insurance company domiciled in the State of Alabama. Refer to NOTE C for further details.

NOTE H – COMMITMENTS AND CONTINGENCIES

The Company is not involved in any claims or legal actions as of June 1, 2023. Management is not aware of any claims or legal actions that would have a material adverse effect on the Company's financial position, results of operations, or cashflows.

NOTE I – RISKS AND UNCERTAINTIES

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

Regulatory Risk

Regulatory risk is the risk of loss due to changes in regulations or non-compliance with existing regulations. The Company's business plan requires it to maintain its license as a Class E insurer in Bermuda. Failure to maintain this license in good standing would adversely affect the Company. Similarly, inability to comply with a changing legal and regulatory environment could also subject the Company to penalties, unanticipated costs or interruption to the Company's operations. The Company mitigates this risk through timely production of regulatory compliance deliverables, regular and open communication with the Bermuda regulator, discussions with internal and external counsels and other third parties as and when necessary, annual compliance assessment with the Bermuda Insurance Code of Conduct, and participation in industry trade association to monitor regulatory developments.

As a Class E insurer, the Company is subject to Bermuda's Insurance Act 1978 ("Bermuda Insurance Act") as well as other applicable Bermuda law and regulations. Among other requirements, Class E insurers must at all times maintain Minimum Margin of Solvency ("MMS") and Enhanced Capital Requirement ("ECR") in accordance with the Bermuda Insurance Act. Class E insurers must maintain MMS that is the greater of: (1) $8 million; (2) 2% of the first $500 million of assets plus 1.5% of applicable assets above $500 million; or (3) 25% of the ECR. The ECR is based on the Economic Balance Sheet ("EBS") framework and the Bermuda Solvency Capital Requirement ("BSCR") which is Bermuda's risk-based capital requirement. In addition to the MMS requirement, a Class E insurer must maintain available statutory economic capital and surplus that equals or exceeds its ECR. The Company was in compliance with such laws and regulations as of December 31, 2022.

Fixed Income Investment Risk

Fixed income investment risk is the risk of change in the value of fixed rate securities due to change in interest rates and credit spreads, and the risk that an issuer of a security or obligation becomes impaired or defaults, resulting in a financial loss.

The Management Company works within the investment policy and guidelines approved by the Company's Board of Directors (the "Board"). Additionally, investment guidelines are also agreed with cedants as part of reinsurance contracts. These guidelines provide detailed composition and allocation limits and have been agreed with the Management Company. Any breaches are reported to the Company's management and the Board for their review and commentary. In addition, the Board also monitors overall investment risks. Credit spread risk is managed by having a robust Asset-Liability Management ("ALM") policy and procedures in place. OBR's credit securities are of high credit quality and most of its liabilities are renewable over the short term with adjustable crediting rates and priced-in minimum crediting rate guarantees. Therefore, changes in credit spreads can be passed on to the policyholders upon renewal.

Interest Rate and Liquidity Risk

Interest rate and liquidity risk is the risk that changes in interest rates adversely and disproportionately impact the value of interest-sensitive assets relative to the value of the liabilities. This risk is mitigated by OAM working within the contractually agreed and Board-approved investment guidelines and policies.

The Company has an ALM program that minimizes asset-liability mismatch risk through duration matching, and combined with a hedging program, ensures that interest rate sensitivities are maintained within acceptable ranges.

Concentration Risk

Concentration risk is the risk of high concentration of exposure to counterparties and credit risk associated with those counterparties. This risk is mitigated through concentration limits on asset classes and rating categories. Further, concentration limits within each asset class are applied and are set based on the relevant characteristics of the class. For example, residential mortgage loans have concentration limits based on geographic location, property type, etc. Concentration limits for corporate credit are based on allocation limits applied to a given sector and obligor. OBR's investment policy and guidelines specify the concentration limits that the Company abides by.

Lapse and Expense Risk

Lapse risk is the risk of loss because of adverse deviation of actual to expected policyholder surrenders and partial withdrawals. This risk is mitigated through appropriate pricing and analysis (including sensitivity testing) of cedant's lapse experience at the pricing stage. After the treaty has been onboarded, the risk is monitored and mitigated through analysis of actual to expected lapse experience, profit and loss attribution to lapse activity, lapse stress and scenario testing, and industry benchmarking. Lapses are very sensitive to crediting rates. Regular monitoring and benchmarking of crediting rates is carried out and crediting rates are set at a competitive level.

Expense risk is the risk of deviation in operational expenses from expected. Actual vs budgeted operational expenses are monitored regularly. A detailed analysis of operational and administrative expenses by category is carried out and variances reviewed to ensure operational expenses are managed within the budget. Inflation is monitored and appropriately allowed for in the budget, pricing process, and reserves.

Mortality Risk

Mortality risk is the risk of adverse fluctuations in or deterioration of mortality experience relative to expectations.

This risk is mitigated through appropriate pricing and analysis (including sensitivity testing) of the cedant's mortality experience at the pricing stage. After the treaty has been onboarded, analysis of actual to expected mortality experience, profit and loss attribution to mortality, and mortality stress and scenario testing, help monitor and mitigate the risk.

Operational Risk

Operational risk is the risk of losses caused by flawed or failed processes, policies, systems, or events that disrupt business operations. In addition, the Company also includes reputational, corporate governance, finance, legal, and strategic risks under the operational risk umbrella.

NOTE J – SUBSEQUENT EVENTS

The Company has evaluated events and transactions that occurred during the period from the balance sheet date through June 1, 2023, the date the Company's financial statements were available to be issued. There were no events or transactions that occurred during the period that materially impact the amounts or disclosures in these financial statements.