

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

Oceanview Reinsurance Ltd.

**(A Wholly Owned Subsidiary of Oceanview Holdings,
Ltd.)**

For the years ended December 31, 2022 and
2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Oceanview Reinsurance Ltd.

Opinion

We have audited the consolidated financial statements of Oceanview Reinsurance Ltd. (a Bermuda limited corporation) and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated 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 years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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.

Auditor's responsibilities for the audit of the financial statements

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



Hartford, Connecticut
June 1, 2023

Oceanview Reinsurance Ltd.
(A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.)

CONSOLIDATED BALANCE SHEETS

December 31, 2022 and 2021

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

	<u>2022</u>	<u>2021</u>
Assets:		
Funds withheld asset, at fair value	\$ 2,445,639	\$ 2,011,269
Cash and cash equivalents	27,377	20,763
Restricted cash	198	2,292
Derivative assets, at fair value	243	706
Deferred acquisition costs, net	—	16,714
Deferred tax asset, net	4,109	—
Accounts receivable	2,518	2,880
Other	50	—
Total assets	<u>\$ 2,480,134</u>	<u>\$ 2,054,624</u>
Liabilities:		
Insurance reserves (see Note B)	\$ 2,243,588	\$ 1,872,074
Accounts payable and accrued expenses	35,502	3,963
Derivative liability, at fair value	—	1,280
Due to related parties	35	—
Deferred profit liability	—	26,654
Affiliate note payable	21,000	42,317
Ceding commission payable	3,997	503
Total liabilities	<u>2,304,122</u>	<u>1,946,791</u>
Stockholder's Equity:		
Common stock, par value \$1.00 per share, 250,000 shares authorized, issued, and outstanding	250	250
Additional paid-in capital	101,250	80,250
Retained earnings	69,963	27,333
Non-controlling interest in subsidiary	4,549	—
Total stockholder's equity	<u>176,012</u>	<u>107,833</u>
Total liabilities and stockholder's equity	<u>\$ 2,480,134</u>	<u>\$ 2,054,624</u>

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

Oceanview Reinsurance Ltd.
(A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31, 2022 and 2021

(U.S. Dollars in Thousands)

	2022	2021
Revenues:		
General account net investment loss	\$ (1,236)	\$ (1,383)
General account net investment gain (loss)	—	(160)
General account net derivative loss	(4,241)	(4,670)
Income from reinsurance, including investment result on funds withheld asset	117,509	64,040
Total revenues	<u>112,032</u>	<u>57,827</u>
Expenses:		
Interest expense	289	312
General and administrative	3,984	2,529
Interest sensitive contract benefits	46,285	48,344
Professional fees	1,046	792
Commissions on reinsurance, net of DAC	<u>17,826</u>	<u>6,719</u>
Total expenses	69,430	58,696
Income (loss) before income taxes	42,602	(869)
Income tax benefit	<u>(14)</u>	<u>—</u>
Net income (loss)	<u>\$ 42,616</u>	<u>\$ (869)</u>
Net loss attributable to non-controlling interest in subsidiary	<u>(13)</u>	<u>—</u>
Net income (loss) attributable to Oceanview Reinsurance Ltd.	42,629	(869)
Other comprehensive income:		
Unrealized gain on available-for-sale securities, net	<u>—</u>	<u>305</u>
Comprehensive income (loss) attributable to Oceanview Reinsurance Ltd.	<u>\$ 42,629</u>	<u>\$ (564)</u>

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

Oceanview Reinsurance Ltd.
(A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

For the Years Ended December 31, 2022 and 2021
(U.S. Dollars in Thousands, Except Share and Per Share Data)

	Number of Shares	Common stock \$1 par value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling interest in subsidiary	Total
Balance at December 31, 2020	250,000	\$ 250	\$ 77,850	\$ 28,202	\$ (305)	— \$	105,997
Net loss	—	—	—	(869)	—	—	(869)
Other comprehensive income	—	—	—	—	305	—	305
Capital contribution	—	—	2,400	—	—	—	2,400
Balance at December 31, 2021	250,000	250	80,250	27,333	—	—	107,833
Net income (loss)	—	—	—	42,629	—	(13)	42,616
Capital contribution	—	—	21,000	—	—	4,563	25,563
Balance at December 31, 2022	<u>250,000</u>	<u>\$ 250</u>	<u>\$ 101,250</u>	<u>\$ 69,963</u>	<u>\$ —</u>	<u>\$ 4,549</u>	<u>\$ 176,012</u>

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

Oceanview Reinsurance Ltd.
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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

(U.S. Dollars in Thousands)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net income (loss)	\$ 42,616	\$ (869)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Income from reinsurance, change in fair value on funds withheld	(28,409)	—
Deferred tax benefit	(4,109)	—
Accretion of securities premium	—	(8)
Net investment loss	—	160
Net derivative loss	4,241	4,670
Amortization of deferred profit liability	—	(3,613)
Amortization of deferred acquisition costs	—	46
Net change in:		
Payments for ceding commission and brokerage fees on funds withheld contracts	(34,447)	—
Accounts receivable	362	(308)
Deferred acquisition costs	16,714	(16,571)
Deferred profit liability	(26,654)	7,375
Interest receivable	(50)	11
Accounts payable, accrued expenses, and ceding commission payable	35,033	(29,453)
Due to related parties	(282)	315
Net cash provided by (used in) operating activities	<u>5,015</u>	<u>(38,245)</u>
Cash flows from investing activities:		
Proceeds from sales of available-for-sale securities	—	12,690
Net payments for derivatives	(5,058)	(3,862)
Net cash (used in) provided by investing activities	<u>(5,058)</u>	<u>8,828</u>
Cash flows from financing activities:		
Proceeds from reinsurance agreements on investment and deposit-type contracts, net	—	34,076
Capital contribution	—	2,400
Capital contribution from non-controlling interest	4,563	—
Net cash provided by financing activities	<u>4,563</u>	<u>36,476</u>
Net increase in cash, cash equivalents and restricted cash	4,520	7,059
Cash, cash equivalents and restricted cash, beginning of year	23,055	15,996
Cash, cash equivalents and restricted cash, end of year	<u>\$ 27,575</u>	<u>\$ 23,055</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ —	\$ 312
Non-cash conversion of affiliate note payable to equity	\$ 21,000	\$ —
Deposits on investment-type contracts through reinsurance agreement	\$ 679,238	\$ 201,778

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

**Oceanview Reinsurance Ltd.
(A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2022 and 2021

NOTE A - ORGANIZATION

Oceanview Reinsurance Ltd. (the “Company”) is an exempted company incorporated in Bermuda on April 20, 2018, and is a wholly owned subsidiary 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, which includes individual and group life and annuity reinsurance. On January 17, 2019, the Company obtained its certificate of registration as a Class E insurer under the Insurance Act 1978 from the Bermuda Monetary Authority (“BMA”).

The Company has a subsidiary company, Oceanview Bermuda Reinsurance Ltd. (“OBR”), an exempted company incorporated in Bermuda on October 21, 2021 and began operations on December 28, 2022. OBR is a 75% directly held subsidiary of the Company and 25% owned by Oceanview U.S. Holdings Parent, LLC (“OVUSHP”), a wholly owned subsidiary of OVH.

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 I – 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”).

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, OBR, in which it owns a 75% interest. The remaining 25% ownership of OBR is held by OVUSHP. For the purposes of these financial statements, OBR’s income and equity attributable to OVUSHP has been shown as income and equity attributable to “non-controlling interest”, respectively.

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, derivatives (including embedded derivatives), 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 and 2021, substantially all cash balances were at major financial institutions earning interest. At December 31, 2022 and 2021, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

Restricted Cash

Restricted cash includes deposits and collateral under various derivative and reinsurance agreements. At December 31, 2022 and 2021, restricted cash is held with various counterparties in interest bearing accounts.

Reinsurance

The Company assumes insurance and investment contracts under coinsurance and funds withheld coinsurance agreements. The Company follows reinsurance accounting for transactions 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 coinsurance and funds withheld coinsurance are presented gross on the consolidated balance sheets.

Funds Withheld Reinsurance Contracts at Fair Value

The Company's reinsurance contracts existing on December 31, 2021, underwent substantial changes which constituted extinguishment. For these contracts, effective January 1, 2022, the Company elected to carry assets and liabilities at fair value in aggregate pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 825-10 – *Recognition and Measurement of Financial Assets and Financial Liabilities*. Similarly, for contracts inceptioned on or after January 1, 2022, the Company elected to use the fair value option on a contract-by-contract basis. Under these elections, 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, including investment result on funds withheld on the consolidated statements of operations and comprehensive income (loss). This reduces earnings volatility in the accounting of the reinsurance agreements.

The Company's funds withheld asset consists of arrangements with an unaffiliated insurer and an affiliated insurer (refer to Note C – Funds Withheld Asset and Note I – Related Party Transactions). Under these arrangements, the Company assumed via reinsurance certain insurance reserves with premiums withheld by the cedants under provisions of the respective reinsurance agreements. Although the assets in funds withheld are legally owned by the cedants, the assets are separated from the general accounts of the cedants and all economic rights and obligations of the assets accrue to the Company. The withheld premium is invested in accordance with the respective reinsurance treaties 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.

As a result of the fair value election made on January 1, 2022, the fair value of insurance reserves 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 insurance reserves indicated by market expectations on the effective date of the financial statements.

The liability cashflows associated with the insurance reserves 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

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 the non-performance risk spread.

Insurance Reserves

For periods prior to January 1, 2022, insurance reserves relating to funding agreements, are accounted for as deposits and established at account value. The Company has accounted for its reinsurance contracts in accordance with FASB ASC Topic 720 using the deposit method of accounting. At inception, the deposit liability is measured based on consideration paid or received, less any explicitly identified premiums or fees to be retained by the insurer or reinsurer. The amount of the liability and any balances receivable from or payable to the cedent is adjusted at each reporting date to reflect any amounts accrued in terms of the underlying reinsurance treaty.

For periods prior to January 1, 2022, insurance reserves relating to deferred annuities, are accounted for in accordance with FASB ASC Topic 944 using investment contract accounting. At inception, the deferred annuity reserve is measured based on consideration paid or received, less any explicitly identified premiums or fees to be retained by the insurer or reinsurer. The amount of the reserves and any balances receivable from or payable to the cedent is adjusted at each reporting date to reflect the underlying deferred annuity contract values.

On December, 31 2021, the Company entered into a reinsurance agreement with an affiliate (refer to Note I- Related Party Transactions) where some of the insurance liabilities reinsured related to fixed indexed annuities. For periods prior to January 1, 2022, insurance reserves relating to fixed indexed annuities are accounted for by bifurcating each FIA contract into a host contract and an embedded derivative and valuing both pieces separately. At issue, future benefits are projected using best estimate liability assumptions in terms of policy holder behavior and indexed interest growth (projected benefits). In addition, a separate benefits projection is done which uses best estimate liability assumptions and contract guarantees (guaranteed benefits). Both quantities are then present valued and the difference between these two quantities represents the initial embedded derivative. Then the host contract value is set such that host contract plus embedded derivative equals the initial account value. At subsequent valuation periods the host contract is accreted at a rate (determined at issue) such that it will grow to the guaranteed maturity value at policy maturity. In addition, the embedded derivative value is recalculated at each valuation date using updated market inputs including initial option values and discounting curves. The combination of the accrued host contract value and the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

valuation date specific embedded derivative value is the GAAP benefit liability reserve in periods beyond issue.

Income Taxes

The Company, as a Bermuda company, is not subject to U.S. federal or state income tax as a separate entity. Under the laws of Bermuda, there is no income, estate, sales or other Bermudian taxes payable by the Company. In the event that taxes are levied, the Company has received an undertaking from the Bermuda government exempting it from all taxes until March 31, 2035.

The Company's subsidiary, OBR, has elected to be taxed as a U.S. taxpayer under section 953(d) of the Internal Revenue Code ("IRC"). OBR 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 OBR's financial statement and income tax bases of assets and liabilities using the enacted income tax rates. OBR recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in its financial statements. Deferred income taxes arise from taxable or deductible temporary differences between OBR's 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.

OBR 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 financial statements. As required, OBR 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 OBR's 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, OBR did not record an accrual for any material uncertain tax positions.

OBR 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. OBR's policy is to classify interest and penalties related to income taxes (if any) as other operating expenses within its statements of operations.

Deferred Acquisition Costs, Net

The Company incurs significant costs in connection with acquiring new and renewal insurance business. Prior to January 1, 2022, costs that related to the successful acquisition or renewal of insurance contracts were capitalized as deferred acquisitions costs ("DAC") to the extent they were recoverable from gross profits. DAC related to contracts without significant revenue streams from sources other than investment of the policyholder funds, or without significant surrender charges, were amortized using the effective interest method. The effective interest method amortized the DAC by discounting the future liability cash flows at a break-even rate. The break-even rate was solved such that the present value of future liability cash flows was equal to the net liability at the inception of the contract.

As the Company extinguished its existing reinsurance contracts at January 1, 2022, the outstanding DAC of \$16.7 million as of that date were written off.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

Deferred Profit Liability

Prior to January 1, 2022, at inception of block reinsurance transactions, the excess of the assets received over the sum of the reserves reinsured and ceding commission was deferred and recognized as a deferred profit liability ("DPL"). The DPL for interest-sensitive, investment-type contracts was amortized using the effective interest method. The effective interest method was based on assumptions using accepted actuarial methods. Amortization was recorded in income from reinsurance within the consolidated statements of operations and comprehensive income (loss).

As the Company extinguished its existing reinsurance contracts at January 1, 2022, the outstanding DPL of \$26.7 million as of that date was written off.

Embedded Derivatives

The right to receive or obligation to pay total return on the assets supporting the funds withheld asset under reinsurance agreements represented an embedded derivative pursuant to ASC 815, *Derivatives and Hedging*. Prior to January 1, 2022, the fair value of embedded derivative on funds withheld asset was computed as the unrealized gain (loss) on the underlying assets and included in the funds withheld asset on the consolidated balance sheets for assumed agreements. The change in the fair value of the embedded derivatives was recorded in income from reinsurance including investment result on funds withheld on the consolidated statements of operations and comprehensive income (loss).

Effective January 1, 2022, the Company extinguished its existing reinsurance contracts and elected the fair value option for contracts inception on or after January 1, 2022. Hence, the Company is no longer required to bifurcate the embedded derivative from the host contract.

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 consolidated 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 as of January 1, 2022, and did not have a material impact on the Company's consolidated financial statements.

Oceanview Reinsurance Ltd.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

NOTE C – FUNDS WITHHELD ASSET

At December 31, 2022 and 2021, the Company's funds withheld assets were comprised of five agreements, four of which relate to reinsurance and retroceded arrangements with an affiliated insurer under common control, Oceanview Life and Annuity Company ("OVLAC"), rated "A-" by A.M. Best. See NOTE I – 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
Residential mortgage loans	\$ 136,002	5.56 %
Commercial mortgage loans	514,863	21.05 %
Preferred shares	147,553	6.03 %
US corporate bonds	474,056	19.38 %
Municipal bonds	807	0.03 %
Other structured securities	12,926	0.53 %
Non-agency mortgage-backed securities	664,568	27.17 %
Derivatives	2,275	0.09 %
Cash	493,501	20.18 %
Payable	(912)	(0.04)%
	<u>\$ 2,445,639</u>	<u>100.00 %</u>

At December 31, 2021, the funds withheld asset was comprised of the following underlying assets (U.S. dollars in thousands):

	Total	% of Total
Residential mortgage loans	\$ 220,396	10.96 %
Commercial mortgage loans	477,465	23.74 %
Preferred shares	55,054	2.74 %
US corporate bonds	594,517	29.55 %
Municipal bonds	41,045	2.04 %
Other structured securities	13,018	0.65 %
Non-agency mortgage-backed securities	550,743	27.38 %
US treasuries	14,109	0.70 %
Cash	52,828	2.63 %
Payable	(832)	(0.04)%
Embedded derivative	(7,074)	(0.35)%
	<u>\$ 2,011,269</u>	<u>100.00 %</u>

Oceanview Reinsurance Ltd.
(A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

NOTE D – GENERAL ACCOUNT NET INVESTMENT LOSS

General account net investment loss includes interest and other income from general account investments and is recorded net of investment expenses.

The major sources of general account net investment loss in the accompanying consolidated statements of operations and comprehensive income (loss) are as follows (U.S. dollars in thousands):

	For years ended December 31,	
	2022	2021
Interest earned on cash and securities	\$ 166	\$ 74
Net amortization of premiums and accretion of discounts on securities	—	(8)
Other income	78	30
Gross investment income	244	96
Investment expenses	(1,480)	(1,479)
General account net investment loss	\$ (1,236)	\$ (1,383)

NOTE E – GENERAL ACCOUNT NET INVESTMENT GAIN (LOSS)

General account net investment gain (loss) includes net realized investment gain (loss) from the sale and unrealized changes in fair value of general account investments. Gains and losses on the sale of general account investments are determined using the specific cost identification method.

Details underlying general account net investment gain (loss) reported in the accompanying consolidated statements of operations and comprehensive income (loss) are as follows (U.S. dollars in thousands):

	For years ended December 31,	
	2022	2021
Realized loss on securities	\$ —	\$ (160)
General account net investment loss	\$ —	\$ (160)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

NOTE F – FINANCIAL DERIVATIVE INSTRUMENTS

At December 31, 2022 and 2021, the Company had not elected to designate any derivatives for hedge accounting under ASC 815. Derivatives are reported at fair value. Changes in fair value are included in general account net derivative loss in the consolidated statements of operations and comprehensive income (loss). The Company reports all derivative balances and related cash collateral subject to enforceable master netting arrangements on a gross basis within the consolidated balance sheets.

Futures Contracts

Eurodollar futures are exchange traded futures contracts with prices related to short-term U.S. dollar interest rates. Eurodollars are U.S. dollars deposited in commercial banks outside the United States. Eurodollar futures prices reflect market expectations for interest rates on three-month Eurodollar deposits for specified dates in the future. Futures contracts are settled in cash upon expiration. Upon entering into such contracts, the Company is required to pledge to the broker an amount of cash greater than or equal to the minimum “initial margin” requirements of the relevant exchange. Pursuant to the contracts, the Company agrees to receive from or pay to the broker an amount of cash greater than or equal to daily fluctuation in the value of the contracts. When the contracts are closed, the Company records a realized gain or loss equal to the difference between the value of the contracts at the time they were opened and the value at the time they were closed. Any unrealized appreciation or depreciation recorded is simultaneously reversed. The use of futures transactions involves the risk of an imperfect correlation in the movements in the price of futures contracts and interest rates.

Interest Rate Swaps

An interest rate swap agreement is a derivative contract between two parties in which one stream of future interest payments is exchanged for another based on a specified notional principal amount. In connection with these agreements, cash collateral is posted in accordance with the terms of the swap agreements to provide assets of value and recourse in the event of default. Liquidation payments made or received are recorded as realized gains or losses in the consolidated statements of operations and comprehensive income (loss) upon termination of the swap. Net periodic payments received or paid by the Company are included as part of realized gains or losses on the consolidated statements of operations and comprehensive income (loss). Entering into interest rate swap agreements involves market risk related to unfavorable changes in interest rates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

The following tables present the notional amount and fair value of derivative instruments at December 31, 2022 and 2021 (U.S. dollars in thousands):

Instrument	December 31, 2022		
	Net Notional Value	Fair Value	
		Assets	Liabilities
Interest rate contracts			
Forward contracts	\$ 19,000	\$ 225	\$ —
Bond futures	3,500	18	—
	<u>\$ 22,500</u>	<u>\$ 243</u>	<u>\$ —</u>
Instrument	December 31, 2021		
	Net Notional Value	Fair Value	
		Assets	Liabilities
Interest rate contracts			
Eurodollar futures	\$ (551,000)	\$ —	\$ (1,018)
Bond futures	(36,500)	556	—
Great Britain Pound futures	10,905	—	(262)
Interest rate swaps	9,063	150	—
	<u>\$ (567,532)</u>	<u>\$ 706</u>	<u>\$ (1,280)</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

The effect of derivative instruments on the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2022 and 2021, is as follows (U.S. dollars in thousands):

Instrument	December 31, 2022	
	Realized Gain (Loss)	Unrealized Gain (Loss)
Interest rate contracts		
Forward contracts	\$ 1,144	\$ 223
Eurodollar futures	(9,696)	693
Interest rate swaps	3,532	(137)
	<u>\$ (5,020)</u>	<u>\$ 779</u>
Instrument	December 31, 2021	
	Realized Gain (Loss)	Unrealized Gain (Loss)
Interest rate contracts		
Forward contracts	\$ (57)	\$ (11)
Eurodollar futures	(3,456)	(1,072)
Interest rate swaps	1,076	(1,150)
	<u>\$ (2,437)</u>	<u>\$ (2,233)</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

NOTE G – 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	\$ 506,363	\$ 1,275,484	\$ 663,792	\$ 2,445,639
Bond futures	18	—	—	18
Forward contracts	225	—	—	225
Total assets at fair value	\$ 506,606	\$ 1,275,484	\$ 663,792	\$ 2,445,882
Liabilities	Level 1	Level 2	Level 3	Total
Insurance reserves	\$ —	\$ —	\$ 2,243,588	\$ 2,243,588
Total liabilities at fair value	\$ —	\$ —	\$ 2,243,588	\$ 2,243,588

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The balance of assets and liabilities measured at fair value as of December 31, 2021, is as follows. (U.S. dollars in thousands):

Assets	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds withheld asset - embedded derivative	\$ 394	\$ (5,721)	\$ (1,747)	\$ (7,074)
Bond futures	556	—	—	556
Interest rate swaps	—	150	—	150
Total assets at fair value	<u>\$ 950</u>	<u>\$ (5,571)</u>	<u>\$ (1,747)</u>	<u>\$ (6,368)</u>

Liabilities	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Great Britain Pound Futures	\$ 262	\$ —	\$ —	\$ 262
Eurodollar futures	1,018	—	—	1,018
FIA embedded derivative	—	—	14,435	14,435
Total liabilities at fair value	<u>\$ 1,280</u>	<u>\$ —</u>	<u>\$ 14,435</u>	<u>\$ 15,715</u>

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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 and 2021 (U.S. dollars in thousands):

Description	Fair Value		Valuation Technique	Unobservable Input	Weighted Average	
	2022	2021			2022	2021
Funds withheld asset – large balance commercial mortgages	\$ 356,964	\$ —	Weighted average credit spread	Weighted average spread	4.24%	— %
Funds withheld asset – small balance commercial mortgages	\$ 157,900	\$ —	Discounted cash flows	Spread	4.08%	— %
				Probability of default	11.00%	— %
				Loss severity	24.00%	— %
Funds withheld asset – federally insured residential mortgages	\$ 43,512	\$ —	Discounted cash flows	Spread	3.50%	— %
Funds withheld asset - non-federally insured residential mortgages	\$ 92,490	\$ —	Discounted cash flows	Spread	2.36%	— %
				Probability of default	2.00%	— %
				Loss severity	32.70%	— %
Funds withheld asset – other securities	\$ 12,926	\$ —	Discounted cash flows	Discount rate	9.01%	— %
Funds withheld asset - embedded derivative (residential mortgage loans)	\$ —	\$ (3,236)	Discounted cash flows	Constant prepayment rate	— %	19.60%
				Probability of default	— %	1.50%
				Loss severity	— %	47.10%
Funds withheld asset - embedded derivative (small balance commercial mortgage loans)	\$ —	\$ (502)	Discounted cash flows	Constant prepayment rate	— %	9.40%
				Probability of default	— %	7.91%
				Loss severity	— %	36.98%
Funds withheld asset - embedded derivative (large balance commercial mortgage loans)	\$ —	\$ 1,548	Weighted average credit spread	Spread	— %	5.26%
Funds withheld asset - embedded derivative (large balance commercial mortgage loans)	\$ —	\$ 443	Weighted average credit spread	Spread	— %	4.26%

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Insurance reserves, at fair value	\$ 2,243,588	\$ —	Discounted cash flows	Non-performance risk spread	2.10%	— %
				Risk margin to reflect uncertainty	0.50%	— %
Insurance reserves - embedded derivative	\$ —	\$ 14,435	Weighted Average	Option value	— %	3.56%
				Option budget	— %	2.60%
				Surrender rate	— %	3.00%

Transfers between levels

During the years ended December 31, 2022 and 2021, there were no transfers between levels.

Purchases of fair value assets

For the year ended December 31, 2022 the Company purchased \$9.69 million in assets classified as Level 3. For the year ended December 31, 2021, the Company did not purchase any assets classified as Level 3 fair value.

NOTE H – INCOME TAXES

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

	<u>2022</u>
Current – Federal	\$ 4,095
Deferred – Federal	<u>(4,109)</u>
Income tax benefit	<u>\$ (14)</u>

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

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	<u>\$ (14)</u>

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	<u>6,483</u>
Deferred tax liability:	
GAAP-to-statutory adjustments	2,374
Total deferred tax liability	<u>2,374</u>
Net deferred tax asset	<u>\$ 4,109</u>

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's subsidiary, OBR, 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, OBR had not determined if it will be subject to the CAMT in 2023.

NOTE I – 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

the first day of each month. The Management Company may, in its sole discretion, reduce or waive the asset management fee for any period. For the years ended December 31, 2022 and 2021, the Company incurred asset management fees of \$1.5 million and \$1.5 million, respectively.

Retrocession and Reinsurance Agreements

The Company has entered into five funds withheld coinsurance agreements and one coinsurance agreement. Four of the Five funds withheld coinsurance agreements are with OVLAC, an affiliated insurance company domiciled in the State of Alabama. Refer to NOTE C – Funds Withheld Asset for further details.

Affiliate Notes Payable

As of December 31, 2022 and 2021, the Company has an affiliate note payable to OVH of \$21 million and \$42 million, respectively. During 2022, \$21 million of the note payable was converted to additional paid in capital. The interest on the unpaid principal balance of the note accrues at a fixed rate of 0.72% per annum and amounted to \$289 thousand and \$312 thousand during 2022 and 2021, respectively.

NOTE J – STOCKHOLDER’S 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 years ended December 31 2022 and 2021, the Company received \$21 million and \$2.4 million, respectively, in additional contributions from its stockholder.

Non-controlling interest

OVUSHP owns a 25% interest in the Company’s subsidiary OBR. During the year ended December 31, 2022, the Company received \$4.6 million in equity contribution from OVUSHP in relation to OBR.

NOTE K – 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the Years Ended December 31, 2022 and 2021

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 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 L – 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.

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For the Years Ended December 31, 2022 and 2021

NOTE M – SUBSEQUENT EVENTS

The Company has evaluated events and transactions that occurred during the period from the consolidated balance sheets date through June 1, 2023, the date the Company's consolidated financial statements were available to be issued.