**Somerset Reinsurance Ltd.**

**Consolidated Financial Statements**

**for the year ended 31 December 2022**

# Somerset Reinsurance Ltd.

## Content

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# INDEPENDENT AUDITOR'S REPORT

**To the Shareholder and Board of Directors of Somerset Reinsurance Ltd.**

## Report on the audit of the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of Somerset Reinsurance Ltd. (the "Company"), which comprise the consolidated statement of financial position as at 31 December, 2022, the consolidated statements of profit or (loss) and other comprehensive income or (loss), changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### Auditor's responsibilities for the audit of the consolidated 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 a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.

— 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.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
28 March, 2023

# Somerset Reinsurance Ltd.

## Consolidated Statement of Profit or (Loss)

For the years ended 31 December:

| In USD thousands | Notes | 2022 | 2021 |
|---|---|---|---|
| **Revenue** | | | |
| Premiums | | 161,153 | 53,021 |
| Other insurance income | 9.1 | 23,066 | 24,334 |
| Net investment income | 9.2 | 105,019 | 184,852 |
| Investment related gains/(losses) | 9.3 | (769,317) | (100,935) |
| **Total revenue** | | **(480,079)** | **161,272** |
| **Expenses** | | | |
| Benefits and claims | 11.4 | 285,035 | 169,093 |
| Acquisition costs | 9.4 | (34,746) | 943 |
| Other insurance expenses | 9.5 | 23,293 | 19,310 |
| General and administrative expenses | | 22,331 | 20,240 |
| **Total expenses** | | **295,913** | **209,586** |
| **Profit or (Loss) before income tax** | | **(775,992)** | **(48,314)** |
| Income tax (benefit)/expense | 13 | (94,795) | (5,425) |
| **Net profit or (loss)** | | **(681,197)** | **(42,889)** |

See accompanying notes to the consolidated financial statements.

# Somerset Reinsurance Ltd.

## Consolidated Statement of Comprehensive Income or (Loss)
For the years ended 31 December:

| In USD thousands | Notes | 2022 | 2021 |
|---|---|---|---|
| **Net profit or (loss)** | | **(681,197)** | **(42,889)** |
| **Other comprehensive income or (loss)** | | | |
| Items that may be reclassified subsequently to profit or (loss) | | | |
| AFS securities - unrealised investment gains or (losses) | | (171,102) | (30,899) |
| Deferred Tax - AFS Securities - unrealised investment gain or (loss) | | 21,384 | 3,862 |
| DAC Shadow adjustments - AFS securities | | 12,265 | 6,646 |
| Deferred Tax - DAC Shadow adjustments - AFS securities | | (1,532) | (831) |
| **Net other comprehensive income or (loss)** | | **(138,985)** | **(21,222)** |
| **Total net comprehensive income or (loss)** | | **(820,182)** | **(64,111)** |

See accompanying notes to the consolidated financial statements.

# Somerset Reinsurance Ltd.

## Consolidated Statement of Financial Position

as at 31 December:

| In USD thousands | Notes | 2022 | 2021 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 132,918 | 124,969 |
| Restricted cash and cash equivalents | | 9,725 | 60,490 |
| Reinsurance receivables | | 189,609 | 4,071 |
| AFS securities (amortized cost: 2022 - $896,163 and 2021 - $866,788) | 6 | 746,556 | 888,283 |
| FVTPL securities (amortized cost: 2022- $1,586 and 2021 - $3,743) | 6 | 1,366 | 3,883 |
| Investments in unconsolidated affiliate entity – FVTPL | 6,8 | 312,268 | 360,524 |
| Funds withheld | 10.1 | 3,859,622 | 3,526,363 |
| Deferred acquisition costs | 11.5 | 167,573 | 65,279 |
| Policy loans | | 77,151 | 53,587 |
| Other assets | 10.2 | 138,768 | 20,885 |
| **Total assets** | | **5,635,556** | **5,108,334** |
| | | | |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Reinsurance payables | | 81,767 | 77,696 |
| Unearned revenue liability | 11.6 | 135,073 | 136,046 |
| Liabilities for life and health policy benefits | 11.1 | 668,504 | 261,838 |
| Liabilities for future policy benefits | 11.2 | 4,869,314 | 4,032,672 |
| Other liabilities | 10.3 | 32,392 | 24,594 |
| **Total liabilities** | | **5,787,050** | **4,532,846** |
| | | | |
| **Equity** | | | |
| Common shares | 14 | 250 | 250 |
| Additional paid in capital | 14 | 501,568 | 408,368 |
| Accumulated other comprehensive income (loss) | | (125,476) | 13,509 |
| Retained earnings (deficit) | | (527,836) | 153,361 |
| **Total equity** | | **(151,494)** | **575,488** |
| | | | |
| **Total liabilities and equity** | | **5,635,556** | **5,108,334** |

See accompanying notes to the consolidated financial statements.

# Somerset Reinsurance Ltd.

## Consolidated Statement of Cash Flows

For the years ended 31 December:

| In USD thousands | 2022 | 2021 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net profit/(losses) | (681,197) | (42,889) |
| Adjustments to reconcile net profit to net cash provided by operating activities: | | |
| Adjustment for option issuance | 5,471 | (2,355) |
| Adjustment for share awards issuance | 3,724 | (2,165) |
| Adjustment for depreciation and amortization | 302 | 998 |
| Adjustment for net realized gains on disposal of investments | 43,820 | 2,238 |
| Adjustment for net unrealized losses on investments | (16,334) | (67,963) |
| Adjustment for amortization of investments | 3,267 | 4,780 |
| Changes in: | | |
| Restricted cash and cash equivalents | 50,765 | (27,048) |
| Reinsurance receivables | 1,532 | 4,999 |
| Funds withheld | 552,648 | 40,623 |
| Deferred acquisition costs, net of shadow accounting | (58,469) | (2,568) |
| Policy loans | 736 | (5,012) |
| Other assets | (102,922) | (1,932) |
| Liabilities for life and health policy benefits | (6,678) | (16,032) |
| Liabilities for future policy benefits | 121,112 | 71,348 |
| Unearned revenue liability, net of shadow accounting | (936) | (4,650) |
| Reinsurance payables | 4,071 | 32,981 |
| Other liabilities | 3,196 | (112,975) |
| **Total net cash flows (used in) / from operating activities** | **(75,892)** | **(127,622)** |
| | | |
| **Cash flows from/(used in) investing activities** | | |
| Maturities and sales of AFS securities | 168,622 | 277,300 |
| Purchases of AFS securities | (207,803) | (293,811) |
| Maturities and sales of FVTPL securities | 10,347 | 117,395 |
| Purchases of FVTPL securities | (9,116) | (3,630) |
| Net redemptions/purchases of investments in unconsolidated affiliate entities - FVTPL | 243,000 | (30,000) |
| Purchase of intangible assets | - | (283) |
| Net borrowings/repayments from unconsolidated affiliate entities | (214,409) | 63,719 |
| **Total net cash flows from/(used in) investing activities** | **(9,359)** | **130,690** |

See accompanying notes to the consolidated financial statements.

# Somerset Reinsurance Ltd.

## Consolidated Statement of Cash Flows

For the years ended 31 December:

| In USD thousands | 2022 | 2021 |
|---|---|---|
| **Cash flows from/(used in) financing activities** | | |
| Repurchase of shares/options | - | (1,500) |
| Additional paid in capital | 93,200 | - |
| **Total net cash flows used in financing activities** | **93,200** | **(1,500)** |

| | | |
|---|---|---|
| **Total change in cash and cash equivalents** | **7,949** | **1,568** |
| Cash and cash equivalents as at beginning of year | 124,969 | 123,401 |
| Total change in cash and cash equivalents | 7,949 | 1,568 |
| **Cash and cash equivalents as at end of year** | **132,918** | **124,969** |
| **Components of cash and cash equivalents** | | |
| Cash at banks and in hand | 3,974 | 1,030 |
| Cash equivalents | 128,944 | 123,939 |
| **Total cash and cash equivalents as at end of year** | **132,918** | **124,969** |

The Group paid income taxes for Irish tax in the amount of $Nil during the year (2021: $13,799).

The Group has received and paid interest on trust and general assets during the year in the amount of $35,853 and $4,808 respectively (2021: $32,509 and $2,142 respectively). This excludes interest received on funds withheld assets.

The Group has non-cash transactions related to the new reinsurance deals in the amount of $885,907 (2021: $129,090) from receipt of assets (securities).

See accompanying notes to the consolidated financial statements.

# Somerset Reinsurance Ltd.

## Consolidated Statement of Changes in Equity

For the years ended 31 December:

| In USD thousands | Notes | Common shares | Additional Paid in Capital | Other capital reserves | Warrants | Accumulated other comprehensive income (loss) | Retained earnings (deficit) | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balance as at 31 December 2021 | | **250** | **408,368** | **–** | **–** | **13,509** | **153,361** | **575,488** |
| Additions | | – | 93,200 | – | – | – | – | **93,200** |
| Net profit or (loss) | | – | – | – | – | – | (681,197) | **(681,197)** |
| Other comprehensive income or (loss) | | – | – | – | – | (138,985) | – | **(138,985)** |
| **Balance as at 31 December 2022** | | **250** | **501,568** | **–** | **–** | **(125,476)** | **(527,836)** | **(151,494)** |

| In USD thousands | Notes | Common shares | Additional Paid in Capital | Other capital reserves | Warrants | Accumulated other comprehensive income (loss) | Retained earnings (deficit) | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balance as at 31 December 2020 | | **44,415** | **364,203** | **3,459** | **1,997** | **34,731** | **196,565** | **645,370** |
| Option issuance | 12 | – | – | 725 | – | – | – | **725** |
| Transfer to SRHL | 12 | – | – | (3,863) | (1,997) | – | – | **(5,860)** |
| Group Reorganization | 14 | (44,165) | 44,165 | 315 | – | – | (315) | – |
| Common share/award issuance | 12,14 | 38 | – | 387 | – | – | – | **425** |
| Common share/award repurchase/ Forfeit | 12,14 | (38) | – | (1,023) | – | – | – | **(1,061)** |
| Net profit or (loss) | | – | – | – | – | – | (42,889) | **(42,889)** |
| Other comprehensive income or (loss) | | – | – | – | – | (21,222) | – | **(21,222)** |
| **Balance as at 31 December 2021** | | **250** | **408,368** | **–** | **–** | **13,509** | **153,361** | **575,488** |

See accompanying notes to the consolidated financial statements.

# Somerset Reinsurance Ltd.

## Consolidated Notes to the Financial Statements

### 1. Group information

Somerset Reinsurance Ltd. (the "Group") is an exempted company limited by shares incorporated under the laws of Bermuda on 18 September 2014 (Registration No. 49500) and was registered as a Class E Insurer on 12 December 2014 pursuant to the Insurance Act 1978, as amended. The Company's registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Group is a wholly owned subsidiary of Somerset Holdings International ("SHIL") and together with the Group, (the "Consol Group"). The Consol Group includes the following subsidiaries: Somerset Reinsurance Holdings Ltd. ("SRHL"), Somerset Reinsurance America Holdings, Inc. ("SRAHI") and Somerset Reinsurance Company ("SRC"); all of which are wholly owned by the Group.

The Group currently has an authorized share capital of US$250,000 divided into 250,000 common shares of par value US$1.00 each of which 100% are held by SRHL.

On 30 December 2022, Somerset Holdings International Ltd. ("the New Parent" or "SHIL") acquired 100% of the shares of SRHL, by way of an interposition and a merger between an indirect, wholly owned subsidiary of the New Parent and SRHL pursuant to section 104H of the Companies Act 1981, as amended (the "Merger"). Certain investment entities managed and sponsored by Aquarian Holdings LLC own approximately 70% controlling interest in the New Parent located at Tenth Avenue, Floor 6, New York, NY 10014.

The purpose of the Group is to conduct life and annuity reinsurance business and to perform services related thereto.

On 10 March 2023, the Board of Directors approved the financial statements and authorized them for issue.

### 1.1. Basis for preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. This involves a higher degree of judgement or complexity in areas where assumptions and estimates are significant to the financial statements. These estimates and judgements are disclosed in Note 3.

The financial statements have been prepared on a historical cost basis, except for the following items which are stated at their fair value: AFS securities – available for sale ("AFS"), FVTPL securities – fair value through profit or loss ("FVTPL"), investments in unconsolidated affiliate entity – FVTPL and derivatives embedded within funds withheld.

Where IFRS is silent, as it is in respect of the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group determines appropriate measurement bases, to provide the most useful information to users of the financial statements, using their judgment and with reference to U.S. GAAP. In 2023, the company will adopt IFRS 17 and this will be used going forward.

Impact of COVID-19 on Significant Judgments, Estimates and Assumptions

Beginning in January 2020, the outbreak of a virus known as COVID-19 and ensuing global pandemic have resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and significant market uncertainty. In the first quarter of 2020, global financial markets experienced material and rapid declines and significant volatility. Governments and central banks reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The full duration and impact of the COVID-19 pandemic continues to be unknown. Now in the third year of the COVID-19 pandemic, jurisdictions around the world have generally experienced an improved economic outlook during, as the number of COVID-19 cases have been declined significantly. Most businesses globally have generally returned to business as usual, but the crisis has tested the commercial, operational, financial and organizational resilience of companies around the world highlighting the risks and resilience gaps for many organizations, as the effects of pandemic continue to impact global supply chains and markets. The results of the Group reflect management's judgments regarding the impact of prevailing market conditions related to global credit, equities and foreign exchange, as well as prevailing health and mortality experience.

## 2. Significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its financial statements:

### 2.1. Functional currency

The Group's financial statements are presented in United States (US) Dollars, which is the Group's functional currency. All amounts, including amounts presented in the notes (except Note 12) have been rounded to the nearest thousand, unless otherwise indicated.

Foreign currency transactions

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rate, at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange ruling at the reporting date. Foreign exchange differences arising on monetary items are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

### 2.2. Revenue recognition

Classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are accounted for as investment contracts. Insurance risk is transferred when a reinsurer agrees to compensate an insurer if a specified uncertain future event adversely affects the insurer.

Premiums

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue with due and collections is reasonably assured.

Premiums ceded

Premiums ceded on life insurance contracts are recognized as an expense on the date of when premiums are payable to the reinsurer. Premiums include any adjustment arising in the accounting period in respect of reinsurance contracts entered into in prior accounting periods.

Fees and commissions income

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognized over those future periods.

The Group recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services and the standard establishes a five-step model to account for revenue arising from contracts with customers.

### 2.3. Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group is taxed.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Where the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority, the corresponding asset and liabilities are presented on a net basis.

### 2.4. Indirect taxes

Indirect taxes are included in general and administrative expenses.

### 2.5. Financial instruments – financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available for sale financial assets. The Group determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus transaction costs, except those classified as at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset. The amortization of premiums and accretion of discounts is computed using the effective interest method and is recognized in profit or loss as an adjustment of yield. Interest Income is recognized on an accrual basis.

The Group has currently classified its financial instruments as financial assets at fair value through profit or loss, loans and receivables, and available for sale. Cash and cash equivalents are measured at their corresponding notional amount.

IFRS 17, insurance contracts, which reorganizes the recognition and measurement of insurance contracts, was published in May 2017. These new rules will not be mandatory until 2023. This gives the possibility of postponing the first-time application of IFRS 9 until 2023 but requires evidence on the basis of the financial statements as at 31 December 2015 that most of the Group's activity is in insurance. Insurance Business is considered "predominant" if at the time of measurement more than 90% of total liabilities were related to insurance business. Besides liabilities that fall within the scope of IFRS 4, these also include liabilities from investment contracts measured at fair value and other liabilities resulting from insurance business. The Group's liabilities related to insurance business accounted for a share of around 91% of total liabilities at 31 December 2015. In the meantime, there have been no changes to the Group's business activities that would necessitate a reassessment.

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation of the early termination of the contract. The Group has applied the temporary deferral for the application of IFRS 9.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (held for trading) include fixed income securities that are classified as, and investments in unconsolidated affiliate entities that are designated as, fair value through profit or loss upon initial recognition. The fixed income securities are part of a portfolio that are held and traded by the Group for the purpose of short-term profit taking. The investments in unconsolidated affiliate entity are managed and their performance is evaluated on a fair value basis in accordance with the Group's investment strategy.

After initial measurement, financial assets at fair value through profit or loss are subsequently measured at fair value, with unrealized gains or losses recognized in the statement of profit or loss.

Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding fair value through profit or loss investments is reported as net investment income using the effective interest rate ("EIR"). When the asset is derecognized, the gain or loss is recognized in the statement of profit or loss.

When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables depends on the nature of the asset.

Available for sale financial assets

Available for sale financial investments include equity and debt securities. Equity investments classified as available for sale are those that are neither classified as held to maturity nor designated at fair value through profit or loss (held for trading). Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale financial assets are subsequently measured at fair value, with unrealized gains or losses recognized in other comprehensive income (equity).

Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned while holding available for sale investments is reported as net investment income using the EIR. Dividends earned whilst holding available for sale investments are recognized in the statement of profit or loss and included in net investment income when the right of the payment has been established. When the asset is derecognized, the cumulative gain or loss is recognized in investment related gains/(losses), or if determined to be impaired, the cumulative loss is recognized in the statement of profit or loss and removed from the available for sale reserve.

In the case where the Group is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables, and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

For a financial asset reclassified out of the available for sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Available for sale securities include $729,436 (2021 - $882,283) of securities that are held in trust as part of reinsurance agreements to secure the statutory reserves and liabilities of the ceding party.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments. The Group currently has no investments in loans. All receivables are recognized at fair value at initial recognition. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

Impairment

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or another financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset have expired or substantially all risks and rewards of ownership have been transferred or the risks and rewards have neither been transferred nor retained, but control of the asset has been transferred.

**2.6. Derivatives**

The Group may choose to enter into forward contracts, futures, forward rate agreements, currency and interest rate swaps, options and other derivative financial instruments for hedging risk exposures or for trading purposes. The notional amounts or contract volumes of derivatives, which are used to express the volume of instruments outstanding and to provide a basis for comparison with other financial instruments, do not, except for certain foreign exchange contracts, represent the amounts that are effectively exchanged by the parties and, therefore, do not measure the Group's exposure to credit risk. The amounts exchanged are calculated on the basis of the notional amounts or contract volumes and other terms of the derivatives that relate to interest or exchange rates, securities prices and the volatility of these rates and prices.

All derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Gains and losses arising on remeasurement to fair value are recognized immediately in profit or loss.

Derivatives embedded in other financial instruments or in insurance contracts, such as funds withheld, which are not closely related to the host contract are separated and measured at fair value in the statement of financial position. Changes in the fair value are included in investment related gains/(losses) in the statement of profit or loss.

**2.7. Financial instrument - financial liabilities**

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings (carried at amortized cost using the effective interest method), or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, carried at amortized cost (this includes directly attributable transaction costs).

Subsequent measurement

The Group has recognized the following financial liabilities in the statement of financial position:

- Other liabilities
- Reinsurance payables
- Liabilities for life and health policy benefits
- Liabilities for future policy benefits

All of the above-mentioned financial instruments are measured at their corresponding notional amounts. Other liabilities and reinsurance payables are short-term payables with no stated interest rate at invoice amounts and the effect of discounting them is considered immaterial.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

**2.8. Offsetting of financial instruments**

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The Group presents the reinsurance receivable, reinsurance payable on a per treaty basis and investment in unconsolidated affiliate entities – FVTPL on a net basis. In addition, the Separate Account assets and Separate Account liabilities discussed in Note 2.13 are presented on a net basis.

**2.9. Fair value hierarchy of financial instruments**

For reporting purposes, a fair value hierarchy is established that categorizes the inputs to valuation techniques used to measure fair value into level 1, 2 or 3. 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).

The fair value of assets or liabilities included in level 1 is based on unadjusted quoted prices in active markets for identical assets or liabilities. The fair value of assets or liabilities that are not traded in an active market is determined using valuation techniques. If all significant inputs to these valuation techniques are observable (directly and indirectly) in the market, the assets or liabilities are included in level 2.

If one or more significant inputs to these valuation techniques are not observable in the market, the assets or liabilities are included in level 3. Such inputs may include information that is derived through extrapolation which is not substantiated by observable market data or that reflects the Group's assumptions about what market participants would use in pricing the asset or liability.

Equity securities are carried at their cost as they do not have a quoted price in an active market and their fair values cannot be reliably measured.

An analysis of fair values of financial instruments is provided in Note 6.

**2.10. Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position are comprised of cash on hand, cash at banks, cash in transit and short-term deposits with an original maturity of three months or less.

Restricted cash and cash equivalents consist of cash and cash equivalents held in trust as part of the reinsurance agreement to secure all statutory reserves and liabilities of the ceding party. Restricted cash and cash equivalents are reported as a separate line item on the statement of financial position. Changes in the restricted cash and cash equivalents balance are reported in operating activities within the statement of cash flows.

### 2.11. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

The amounts recognized as a provision represent the best estimate of the expenditure required to settle the obligations.

### 2.12. Employee benefit liabilities

The Group's pension schemes are classified as defined contribution plans under IFRS.

### 2.13. Insurance contract liabilities

Liabilities for life and health policy benefits contracts

Life and health insurance liabilities are recognized when reinsurance contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected premiums that would be received to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the reinsurance contract was issued, in which case, a margin for risk and adverse deviation is generally included. A separate reserve for longevity may be established and included in the measurement of the liability.

Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and premium deficiency, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group. Adjustments to the liabilities at each reporting date are recorded in the statement of profit or loss in Benefits and Claims. Profits originated from margins for adverse deviations on run-off contracts are recognized in the statement of profit or loss over the life of the contract, whereas losses are fully recognized in the statement of profit or loss during the first year of run-off. The liability is derecognized when the contract expires, is discharged or cancelled.

At each reporting date, an assessment is made of whether the recognized life insurance liabilities are adequate, net of related Deferred Acquisition Costs ("DAC"), by using an existing liability adequacy test in accordance with IFRS. The net liability value is adjusted to the extent that it is insufficient to meet expected future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows are used. Discounted cash flows are the primary valuation method used. To the extent that the test involves discounting of cash flows, the interest rate applied may be based on management's expectation of current market interest rates. Any inadequacy is recorded in the statement of profit or loss, initially by impairing DAC and, subsequently, by establishing an additional insurance liability for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. The assumptions do not include a margin for adverse deviation. Impairment losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists, as allowed under IFRS.

Liabilities for future policy benefits

Universal life-type policies and investment contracts include fixed indexed and traditional fixed annuities in the accumulation phase, universal life insurance, and immediate annuities. The Group carries liabilities for fixed annuities, fixed index annuities, and universal life insurance at the estimated balances without reduction for potential surrender or withdrawal charges. Liabilities for immediate annuities risk are calculated at the present value of future liability cash flows and policy maintenance expenses discounted at contractual interest rates.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position and are not recognized as gross premium in the statement of profit or loss. Expenses and cost of insurance charges are recorded both as an adjustment to the liability in the statement of financial position and as other insurance income in the statement of profit or loss.

The liability is derecognized when the contract expires, is discharged or cancelled. For a contract that can be cancelled by the policyholder, the fair value of the contract cannot be less than the surrender value.

Benefits, claims and expenses recognition

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year, including internal and external claims handling costs that are directly related to the processing and settlement of claims. Changes in the gross valuation of insurance are also included. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

Separate account exposure

The Group entered in a Modified Coinsurance (“ModCo”) treaty where the Group assumed Separate Account assets and Separate Account liabilities of $830,765 on a ModCo basis. The underlying individual variable annuities and group variable annuities covered in this treaty are transferrable from Separate Account to General Account or vice versa at participants’ discretion among investment funds. All net realized and unrealized capital gains in the Separate Accounts, which reflect investment performance of the funds in which they invest, accrue directly to participants (net of administrative and other Separate Account charges) and are not reflected in the Group’s Statement of Financial Position. Under the ModCo structure both the assets and liabilities remain on the ceding company’s Statement of Financial Position. The Group is not exposed to insurance, investing, nor administrative risk, the Group did not recognize any assets or liabilities related to the separate accounts on a net settlement basis. The Group shares in certain fees earned by the ceding company with respect to the Separate Accounts. Separate Account fees in 2022 of $7,207 (2021: $10,004) are included in the Statement of Profit or Loss.

### 2.14. Deferred acquisition costs and Unearned revenue liabilities (“URL”)

Direct and indirect costs incurred, and income earned during the financial period arising from the assumption of reinsurance contracts are deferred to the extent that these costs are recoverable out of future premiums or profit. All other acquisition costs and deferred revenue are recognized as an expense when incurred and as an income when earned, respectively.

Subsequent to initial recognition, DAC and URL for life and annuity reinsurance are generally amortized over the expected life of the contracts as a constant percentage of expected premiums or as a constant percentage of gross margins. In certain situations where this information is not available, another suitable basis for amortization is selected such as a ratio to reserves or revenues. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization pattern and are treated as a change in an accounting estimate.

When DAC/URL is amortized in proportion to gross profits or gross margins on the acquired contracts, realized gains/losses including the change in fair value of the embedded derivative in the reinsurance contracts are taken into account as well as gains/losses recognized in other comprehensive income (unrealized gains/losses). If these gains/losses were to be realized, the gross profits or gross margins used to amortize DAC/URL would be affected. Therefore, an adjustment relating to these unrealized gains/losses is recognized in profit or loss/Other Comprehensive Income (OCI) ("shadow accounting") and is also reflected in the amount of DAC/URL in the statement of financial position.

An impairment review of DAC is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognized in the statement of profit or loss.

DAC and URL are derecognized when the related contracts are either settled or disposed of.

### 2.15. Accrued income and prepaid expenses

Accrued income and prepaid expenses include revenues relating to the current financial period, but which are receivable in a subsequent financial period and payments made during the financial period but relating to a subsequent financial period.

### 2.16. Deferred income and accrued expenses

Deferred income is received but related to a subsequent financial period. Accrued expenses consist of charges relating to the current financial period, but which are payable in a subsequent financial period.

### 2.17. Share awards and option-based compensation plan

Somerset Reinsurance Ltd. operates a cash-settled, option-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognized in the statement of profit or loss with a corresponding increase in a liability over the vesting period. As the fair value of the services received cannot reliably be measured, the value is measured by reference to the fair value of the option instruments granted.

The Group grants restricted common share awards to certain employees. The fair value of the employee services received in exchange for the grant of the award is recognized in the statement of profit or loss with a corresponding increase in a liability over the vesting period.

At each subsequent reporting date until vesting, the entity calculates a best estimate of the cumulative charge to profit or loss at that date.

### 2.18. Reinsurance receivables and payables

Reinsurance receivables and payables are recognized when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

### 2.19. Policy loans

Policy loans are carried at outstanding balance, including principal and accrued interest. Policy loans are secured by the underlying cash surrender value of the corresponding contracts.

**2.20. Funds withheld**

Funds withheld represents a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements where the Group acts as reinsurer. The receivable represents the fair market value of assets that are held in custodial accounts that are legally segregated from the ceding companies' general accounts and are managed by the Group. The assets are typically fixed income asset types consistent with those held in trust for coinsurance reinsurance arrangements. In the event of a ceding company's insolvency, the Group would need to assert a claim on the assets supporting the reserve liabilities. However, the Group has the ability to offset amounts owed to the ceding company. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Group is subject to the investment performance and has all economic rights and obligations on the funds withheld assets in a fashion similar to invested assets held directly by the Group. The underlying agreements contain embedded derivatives as discussed in derivatives.

**2.21. Property and equipment**

Property and equipment are carried at cost less accumulated depreciation. This is included in Other assets on the statement of financial position. Depreciation is principally calculated using the straight-line method to allocate their cost to their residual values over the asset's estimated useful life as follows:

Furniture and fixtures eight years; office equipment eight years; computer equipment three years and leasehold improvements three years. The asset's residual value and useful life is reviewed, and adjusted if appropriate, at each statement of financial position date.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred. Realized gains or losses on disposals are determined by comparing proceeds with the carrying amount and are included in profit or loss. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

**2.22. Intangible assets**

Intangible assets consist of acquired computer software licenses and related development costs, as well as right-of-use assets relating to lease contracts. This is included in Other assets on the statement of financial position.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis for the expected useful life of five years.

Development costs that are directly associated with these identifiable software products controlled by the Group and that will generate future economic benefits are capitalized. Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives (five years).

The principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

At inception, the right-of-use asset relating to the lease contract is recognized at the lower of the present value of the minimum lease payments or fair value and is depreciated over its estimated useful life. The corresponding lease obligations are recorded as Other liabilities in the statement of financial position.

**3. Significant accounting estimates and judgments**

The preparation of the Group's financial statements requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures in the notes. Although some uncertainty is inherent in these judgements and estimates, management believes that the amounts recorded are reasonable. The basis for determining amounts is management's best knowledge regarding the items concerned at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The following are key assumptions as they could have a material impact on the carrying amounts of assets and liabilities. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Valuation of Fixed Income securities

The Group obtains pricing information from a range of pricing services and brokers. Where the fair values of securities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgments include considerations of liquidity risk, credit risk, and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

Valuation of liabilities for life and health policy benefits

The liability for life and health policy benefits is either based on current assumptions or on assumptions established at the inception of the reinsurance contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group bases mortality and morbidity on standard industry American mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences and trends. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates, rider elections and annuitization rates are based on the historical experience.

Deferred acquisition costs/unearned revenue liability

Certain acquisition costs related to the sale of new policies are recorded as DAC, likewise, if the assets transferred exceed the GAAP reserve a URL balance is established. These balances are amortized to the statement of profit or loss over time. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated, and this may also require additional impairment write-offs to the statement of profit or loss.

Valuation of funds withheld embedded derivative

The embedded derivative included in funds withheld consists of the difference in the book value and the fair value of the assets from which the host contract is derived. The fair value of the underlying assets is determined as discussed in Fair value of financial assets determined using valuation techniques in Note 6.

Taxes

For current tax, uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Deferred tax assets (including unused tax losses and unused tax credits) are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits.

## 4. Adoption of new and revised Standards

Standards and interpretation issued and effective in current year

In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 3 Reference to Conceptual Framework:

IFRS 3 Conceptual Framework has been amended to 1.) Replace references to the 2001 Conceptual Framework for Financial Reporting to the 2018 Conceptual Framework for Financial Reporting in order to determine what constitutes an asset or liability in a business combination, 2.) Add a new exception for certain liabilities and contingent liabilities to refer to IAS 37 or IFRIC 21 rather than the 2018 Conceptual Framework, and 3.) Clarify that an acquirer should not recognize contingent assets at the acquisition date.

The Group has evaluated this and noted that it has minimal impact on the Group’s accounting activities. Therefore, there are no required changes required.

IAS 37 Onerous contracts – cost of fulfilling a contract:

This standard has been amended to clarify the meaning of "costs to fulfil a contract", and that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

The Group has evaluated this and noted that it has minimal to no impact on the Group's accounting activities and there are no required changes.

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts. The standard is effective from 1 January 2023.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The Group will apply IFRS 17 and IFRS 9 from 1 January 2023 with earliest comparative period 2022 and transition date of 1 January 2022.

IFRS 17 requires specific transition provisions which requires a fully retrospective application of the standard. However, if full retrospective application for a group of insurance contracts is impracticable, then the Group will apply either a modified retrospective approach or a fair value approach.

The Group is currently working on the implementation project, below is a summary description of the likely potential impact:

*Identifying contracts within the scope of IFRS 17*: Based on work performed to date, the Group is not expecting any significant change in the contracts that are considered to be subject to significant insurance risk and thus contracts currently classified as IFRS 4 are generally expected to also be within the scope of IFRS 17.

*Level of aggregation*: The Group will disaggregate each portfolio into groups of contracts that are issued within a calendar year (annual cohorts) and are: 1) contracts that are onerous at initial recognition; 2) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or 3) a group of remaining contracts.

*Transition*: Where not impracticable, the Group will apply the fully retrospective approach. The full retrospective approach is expected to be applied to all insurance contracts in force at the transition date, 1 January 2022. The Transition approach will be determined at the level of group of insurance contracts.

The CSM at initial recognition will be based on assumptions when groups of contracts were recognized and rolled forward to the date of transition as if IFRS 17 had always been applied.

*Measurement Model*: Based on work performed to date, it is expected that most of the Group's insurance contracts issued are long-term contracts, some with participation features, these types of contracts would normally be accounted for under the variable fee approach, however for IFRS 17 purposes reinsurance contract issued cannot be insurance contracts with direct participation features.

The Group will account these contracts under the general measurement model. Under the general measurement model, both fulfilment cash flows (the sum of the estimated future cash flows and the risk adjustment) and the contractual service margin are remeasured each reporting period.

The CSM represents the unearned profitability of the insurance contracts issued and is recognized in profit or loss over the service period (i.e., coverage period).

*Estimates of future cash flows*: The Group estimates future cash flows in an unbiased manner using reasonable and supportable information. These estimates of future cash flows will reflect the Group's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market information.

Cash flows within the boundary of a contract are those that relate directly to the fulfilment of the contract, including an estimate of those for which the Group has discretion over the amount or timing. These cash flows include directly attributable costs that are incurred in fulfilling these contracts.

*Risk Adjustment for non-financial risks*: As required by IFRS 17, the Group will include an explicit risk adjustment for non-financial risks. The risk adjustment is the compensation the Group requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the Group fulfils insurance contracts. IFRS 4 accounting does not include an explicit risk adjustment.

The Group has taken the following accounting policy choices:

*Insurance finance income or expenses*: IFRS 17 provides an accounting policy choice to recognize the impact of changes in discount rate and other financial variables in profit or loss or in Other Comprehensive Income (OCI). The accounting policy choice is applied on a portfolio basis. The Group will likely elect not to utilize this OCI option at this time and as such, the impact of changes in discount rate and other financial variables is expected to be recognized in profit or loss.

*Disaggregation of changes in the risk adjustment for non-financial risk*: IFRS 17 allows to split the changes in the risk adjustments amounts between the insurance service results and the insurance finance income or expenses; or to include the entire change in the insurance service results. The Group will likely elect not to split these changes.

Key judgements and estimates

In measuring the insurance contracts the Group will exercise judgement in recognizing and estimating the following:

- Classification of contracts within the scope of IFRS 17, whether issued contracts transfers significant insurance risk.
- In the identification of portfolios of insurance contracts, i.e. having similar risks and managed together.
- Determination of the unit of account, judgement will be applied in the combination of insurance contracts into profitability groups.
- The Group may apply judgement in the separation of contracts with multiple insurance coverages.
- The Group will require judgement in assessing the separation of distinctive components that will need to be measured under another standard.

- When contracts are modified, judgement might be applied to establish if the modification meets the criteria for derecognition and recognition of the new modified contract.
- Judgement will be required to determine which cash flows within the contract boundaries relates directly to the fulfilment of the contract.
- Determination of what constitutes an investment component, as this classification will affect the amounts recognized in insurance revenue and insurance service expenses.
- Changes in estimate of future cash flows will require judgement on an ongoing basis.
- The determination of the risk adjustments for non-financial risk.
- Confidence level for determining the risk adjustments for non-financial risk
- Determination of the discount rates

The Group expects that the new standard to result in an important change to the accounting policies for insurance contract liabilities of the Group and will have an impact on profit and total equity together with presentation and disclosure. Throughout 2022, the Group has been working to implement the standard. It is expected that in 2023, IFRS 17 will be fully adopted.

Quantification of the expected impact on restatement of opening retained earnings, assets and liabilities has not yet been finalized.

Narrow Scope Amendments to IAS 1, Practice Statement 2 and IAS 8

In February 2021, amendments were issued to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. This takes effect for annual periods beginning on 1 January 2023. The Group plans to adopt the new standard on the required effective date. The Group is still evaluating the impact of the standard.

Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction

In May 2021, amendments required companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. This takes effect for annual periods beginning on 1 January 2023. The Group plans to adopt the new standard on the required effective date. The Group is still evaluating the impact of the standard.

Amendment to IFRS 16 – Leases on sale and leaseback

In September 2022, amendments were made to include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted. This takes effect for annual periods beginning on 1 January 2024. The Group plans to adopt the new standard on the required effective date. The Group is still evaluating the impact of the standard.

Amendment to IAS 1 – Non-current liabilities with covenants

In November 2022, amendments were made to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. This takes effect for annual periods beginning on 1 January 2024. The Group plans to adopt the new standard on the required effective date. The Group is still evaluating the impact of the standard.

## 5. Risk management, policies and procedures

The Group's core business is to reinsure portfolios of life insurance and annuity policies. The reinsurance of life insurance and annuity policies represents a mid-term to long-term promise to the ceding companies. To fulfill its future payment obligations to the ceding companies, the Group must be financially sound over an extended period of time. The ability to remain financially sound and strong depends on a number of risk factors. The Group's identified risks can be categorized into financial, insurance and operational risks. All of these risk categories can impact the financial stability of the Group.

Risks must be identified, assessed, managed and monitored. Roles, responsibilities, and accountabilities for decision making are structured in line with the Three Lines of Defense principles, with supervision of these activities by the Board or its delegates or designees, thereby achieving effective segregation of duties. In particular:

- The first line of defense resides with the functional leaders (i.e. the Chief Investment Officer (CIO), the Chief Underwriting Officer (CUO) and the Chief Financial Officer (CFO));
- The second line of defense resides with the Chief Risk Officer (CRO) and the Risk and Asset/Liability Management (RALM) Committee for the Executive Management oversight function; and
- The third line of defense resides with the Group's Internal Audit function.

Within Executive Management, risk appetite and key risk management decisions reside with the RALM Committee. Members of the RALM include the CEO, CIO, CUO, CFO and the CRO.

Quarterly, the RALM committee meets to assess risk levels with all risk owners and identify and assess key controls and related control owners, as well as defining the proper key risk levels for all areas.

The supervisory responsibility relating to oversight of risk management by the Executive Management is a Board of Directors oversight function, which includes the activities of the Investment, Risk and Capital Committee (IRCC) and Audit Committee (AC). The Audit Committee is assisted in its supervisory responsibilities by the Group's internal audit function and the Group's compliance function.

The CRO, oversees and assures effective monitoring and control of all identified risks in the business. Among the CRO responsibilities are the development, maintenance and proper utilization of the Group's risk management framework. Additionally, a major responsibility of the CRO is to supervise all limits / tolerances, report any breaches, and follow up with the respective stakeholders on remedial actions.

### 5.1. Financial risk management objectives and policies

The Group is exposed to financial risk through its financial assets, financial liabilities and other liabilities. In particular, the key financial risk is that the financial assets are not sufficient to fund the obligations arising from financial, insurance and other liabilities.

### 5.2. Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

The credit rating of the counterparties, represented as assets in trust, as at 31 December 2022 were as follows:

| In USD thousands | AAA | AA | A | BBB | Below BBB | Not rated | 2022 Total |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 128,945 | - | 3,415 | 557 | - | 1 | 132,918 |
| Restricted cash and cash equivalents | 9,725 | - | - | - | - | - | 9,725 |
| Reinsurance receivables | - | 188,256 | 1,353 | - | - | - | 189,609 |
| AFS securities | 83,676 | 95,037 | 273,481 | 280,143 | 5,265 | 8,954 | 746,556 |
| FVTPL securities | - | - | 672 | 45 | 649 | - | 1,366 |
| Investments in unconsolidated affiliate entities - FVTPL | - | - | - | - | - | 312,268 | 312,268 |
| Funds withheld | 404,175 | 382,582 | 1,354,410 | 1,617,778 | 71,720 | 28,957 | 3,859,622 |
| Other assets | 501 | 822 | 2,827 | 3,327 | 88 | 16,005 | 23,570 |
| **Total exposure to credit risks** | **627,022** | **666,697** | **1,636,158** | **1,901,850** | **77,722** | **366,185** | **5,275,634** |

The Group did not recognize any impairment losses for the year ended 31 December 2022 (2021: $Nil).

The credit rating of the counterparties as at 31 December 2021 were as follows:

| In USD thousands | AAA | AA | A | BBB | Below BBB | Not rated | 2021 Total |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 123,921 | 16 | 261 | 768 | - | 3 | 124,969 |
| Restricted cash and cash equivalents | 60,490 | - | - | - | - | - | 60,490 |
| Reinsurance receivables | - | 1,220 | 2,463 | - | 388 | - | 4,071 |
| AFS securities | 53,268 | 120,178 | 358,556 | 352,971 | 3,310 | - | 888,283 |
| FVTPL securities | 450 | - | - | 819 | 1,238 | 1,376 | 3,883 |
| Investments in unconsolidated affiliate entities - FVTPL | - | - | - | - | - | 360,524 | 360,524 |
| Funds withheld | 262,026 | 305,587 | 1,209,967 | 1,669,289 | 70,098 | 9,396 | 3,526,363 |
| Other assets | 184 | 1,654 | 2,727 | 3,319 | 60 | 4,860 | 12,804 |
| **Total exposure to credit risks** | **500,339** | **428,655** | **1,573,974** | **2,027,166** | **75,094** | **376,159** | **4,981,387** |

Cash and cash equivalents (including restricted), AFS securities, FVTPL securities and Funds withheld: the Group's practice is to use third party independent credit ratings where available. Securities for which management was unable to obtain an independent credit rating are shown as Not Rated.

Reinsurance receivable: the above-mentioned credit rating is based on Standard & Poor's short-term local currency rating of the counterparty.

### 5.3. Concentration risk

Concentration of risk arises from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. The Group has its cash and restricted cash deposited at banks whose short-term local currency ratings are A-1 to A-2 or equivalent according to third-party credit ratings. The Group's fixed income and funds withheld investments are held by custodians whose short-term local currency ratings are A-1 to A-2 or equivalent according to third party currency ratings. The Group's maximum permitted combined holding of a fixed income or funds withheld investment cannot exceed the limits set out in the Group's investment management framework, which provides maximum issuer and maximum sector exposures on an aggregated basis in order to manage concentration risk.

### 5.4. Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is not exposed to any significant currency risk. Any current exposure relates primarily to an insignificant portion of operating expenses as some of them are denominated in non-USD currencies. The Group's functional currency is USD.

Any changes caused by foreign currency on financial instruments would be recorded in the Group's profit or loss and therefore also in the retained earnings (which includes the profit/loss of the current reporting period). The amount of impact due to changes caused by foreign currency is minimal because financial instruments denominated in foreign currency are immaterial to the financial statements.

### 5.5 Liquidity risk

Liquidity risk is the risk that not enough cash resources may be available to pay obligations when due. The Group's liquidity risk management approach consists of 1) monitoring the duration of the assets and liabilities and realigning the investment portfolios as needed; 2) monitoring collateral requirements on a monthly basis against available cash and, 3) maintaining a significant portion of liquid assets in the investment portfolios. The Group is currently exposed to liquidity risk on its obligations to its creditors and cedants. Exposure to liquidity risk is based on the earliest time the Group could be contractually required to repay any outstanding amounts. The assets contractual terms may not be consistent with duration.

The below tables show a liquidity shortfall in certain years, however the tables are completed with the final legal maturities of assets. In the case of prepaying structured securities, the legal maturities can be far greater than the actual weighted average lives of the securities. This would cause the below analysis to skew asset maturities long. The Group matches asset duration and liability duration and is comfortable that no material liquidity shortfall exists.

# Somerset Reinsurance Ltd.

## Consolidated Notes to the Financial Statements

Exposure to liquidity risk as at 31 December 2022:

| In USD thousands | Carrying amount | Up to 1 year | 1–5 years | 5–10 years | >10 years |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Liabilities for life and health policy benefits | 668,504 | 38,822 | 147,017 | 159,811 | 322,854 |
| Liabilities for future policy benefits | 4,869,314 | 189,675 | 993,644 | 880,043 | 2,805,952 |
| Reinsurance payables | 81,767 | 81,767 | - | - | - |
| Other liabilities | 17,726 | 17,726 | - | - | - |
| **Total financial liabilities** | **5,637,311** | **327,990** | **1,140,661** | **1,039,854** | **3,128,806** |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 132,918 | 132,918 | - | - | - |
| Restricted cash and cash equivalents | 9,725 | 9,725 | - | - | - |
| Reinsurance receivables | 189,609 | 189,609 | - | - | - |
| AFS securities | 746,556 | 40,857 | 142,250 | 217,557 | 345,892 |
| FVTPL securities | 1,366 | - | 672 | - | 694 |
| Investments in unconsolidated affiliate entities – FVTPL | 312,268 | 312,268 | - | - | - |
| Funds withheld | 3,859,622 | 111,060 | 592,794 | 948,276 | 2,207,492 |
| Policy loans | 77,151 | 4,480 | 16,967 | 18,444 | 37,260 |
| Other assets | 23,571 | 23,571 | - | - | - |
| **Total financial assets** | **5,352,786** | **824,488** | **752,683** | **1,184,277** | **2,591,338** |
| **Net gap (surplus)** | **284,525** | | | | |

Exposure to liquidity risk as at 31 December 2021:

| In USD thousands | Carrying amount | Up to 1 year | 1–5 years | 5–10 years | >10 years |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Liabilities for life and health policy benefits | 261,838 | 15,166 | 56,595 | 61,339 | 128,738 |
| Liabilities for future policy benefits | 4,032,672 | 263,618 | 833,375 | 836,481 | 2,099,198 |
| Reinsurance payables | 77,696 | 4,501 | 16,794 | 18,201 | 38,200 |
| Other liabilities | 15,579 | 15,579 | - | - | - |
| **Total financial liabilities** | 4,387,785 | 298,864 | 906,764 | 916,021 | 2,266,136 |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 124,969 | 124,969 | - | - | - |
| Restricted cash and cash equivalents | 60,490 | 60,490 | - | - | - |
| Reinsurance receivables | 4,071 | 4,071 | - | - | - |
| AFS securities | 888,283 | 16,628 | 81,193 | 323,944 | 466,518 |
| FVTPL securities | 3,883 | - | - | 757 | 3,126 |
| Investments in unconsolidated affiliate entities – FVTPL | 360,524 | 360,524 | - | - | - |
| Funds withheld | 3,526,363 | 99,435 | 232,622 | 876,665 | 2,317,641 |
| Policy loans | 53,587 | 3,104 | 11,583 | 12,554 | 26,346 |
| Other assets | 12,804 | 12,804 | - | - | - |
| **Total financial assets** | **5,034,974** | **682,025** | **325,398** | **1,213,920** | **2,813,631** |
| **Net gap (surplus)** | **(647,189)** | | | | |

### 5.6. Market risk

The sensitivity analysis shows the effect of capital market events on the value of financial instruments and the corresponding impact on profit or loss and equity.

Market risk – interest rates

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments within the Group's fixed income investment portfolio. Interest on floating rate instruments is re–priced at intervals of less than one year. Interest on fixed interest rate instruments are priced at inception of the financial instrument and is fixed until maturity.

To manage interest rate risk, the Group adheres to a duration match between its liabilities and its overall asset portfolio to minimize economic risk due to yield curve changes, reinvestment risk, liquidity concerns and capital adequacy requirements. The difference in the weighted average of the asset and liability duration is 0.9 years (2021 – 0.1 years). Under current accounting guidance the change in economic value of the liabilities which the Group's invested assets are backing is not captured on a periodic basis and as such the movements in valuation of fixed income securities and the funds withheld portfolio will impact reported financial results without the benefit of the inverse economic impact on the related financial liabilities.

Market risk – Net asset value (NAV)

The following table demonstrates the sensitivity to a reasonably possible change in the NAV of the Investments in unconsolidated affiliate entities, with all other variables held constant, on the Group's profit before tax and the Group's equity due to changes in the NAV.

| | | | | **2022** |
|---|---|---|---|---|
| **In USD thousands** | **Change in NAV** | **Impact on pre-tax profit/loss** | **Impact on equity** | **Total change in market value** |
| | NAV 5% higher | 25,519 | 25,519 | 25,519 |
| | NAV 5% lower | (25,519) | (25,519) | (25,519) |
| | NAV 10% higher | 51,038 | 51,038 | 51,038 |
| | NAV 10% lower | (51,038) | (51,038) | (51,038) |

| | | | | **2021** |
|---|---|---|---|---|
| **In USD thousands** | **Change in NAV** | **Impact on pre-tax profit/loss** | **Impact on equity** | **Total change in market value** |
| | NAV 5% higher | 38,652 | 38,652 | 38,652 |
| | NAV 5% lower | (38,652) | (38,652) | (38,652) |
| | NAV 10% higher | 77,304 | 77,304 | 77,304 |
| | NAV 10% lower | (77,304) | (77,304) | (77,304) |

Market risk – Fair value prices

The following table demonstrates the sensitivity to a reasonably possible change in the prices of the investment portfolio for investments classified as AFS and FVTPL, with all other variables held constant, on the Group's profit before tax and the Group's equity due to changes in the prices.

| | | | | 2022 |
|---|---|---|---|---|
| **In USD thousands** | **Change in price** | **Impact on pre-tax profit and loss** | **Impact on equity** | **Total change in market value** |
| | Price 5% higher | 68 | 37,396 | 37,396 |
| | Price 5% lower | (68) | (37,396) | (37,396) |
| | Price 10% higher | 137 | 74,792 | 74,792 |
| | Price 10% lower | (137) | (74,792) | (74,792) |

| | | | | 2021 |
|---|---|---|---|---|
| **In USD thousands** | **Change in price** | **Impact on pre-tax profit and loss** | **Impact on equity** | **Total change in market value** |
| | Price 5% higher | 194 | 44,608 | 44,608 |
| | Price 5% lower | (194) | (44,608) | (44,608) |
| | Price 10% higher | 388 | 89,217 | 89,217 |
| | Price 10% lower | (388) | (89,217) | (89,217) |

Market risk – Fair value pricing derivative embedded in funds withheld

The Funds withheld balance is also sensitive to a reasonably possible change in the prices of the investment portfolio underlying that balance. The change in value of those securities impacts the Group's financial statements through the change in the valuation of the embedded derivative included in that balance. The valuation of the embedded derivative is based on valuation estimates using valuation methodologies as described in Note 3 to these financial Statements.

The following table demonstrates the sensitivity to a reasonably possible change in the prices of the investment portfolio underlying the funds withheld balance, with all other variables held constant on the Group's profit before tax and the Group's equity, due to changes in the prices.

| | | | | 2022 |
|---|---|---|---|---|
| **In USD thousands** | **Change in price** | **Impact on pre-tax profit and loss** | **Impact on equity** | **Total change in market value** |
| | Price 5% higher | 192,981 | 192,981 | 192,981 |
| | Price 5% lower | (192,981) | (192,981) | (192,981) |
| | Price 10% higher | 385,962 | 385,962 | 385,962 |
| | Price 10% lower | (385,962) | (385,962) | (385,962) |

| | | | | 2021 |
|---|---|---|---|---|
| **In USD thousands** | **Change in Price** | **Impact on pre-tax profit and loss** | **Impact on Equity** | **Total Change in market value** |
| | Price 5% higher | 176,318 | 176,318 | 176,318 |
| | Price 5% lower | (176,318) | (176,318) | (176,318) |
| | Price 10% higher | 352,636 | 352,636 | 352,636 |
| | Price 10% lower | (352,636) | (352,636) | (352,636) |

### 5.7. Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using actuarial techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its reinsurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that increase insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered

Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or widespread changes in lifestyles such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the geographical location of the risk reinsured by the Group. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Group manages risks through its underwriting strategy. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits.

Sensitivities

The following analysis is performed for reasonably possible movements in lapse and mortality assumptions respectively, with all other assumptions held constant for the subsequent year. The projected impact on pre-tax income and reserve for the future 12-month period beginning 31 December and comparative amounts are shown in the tables below:

| | | 2022 | | 2021 | |
|---|---|---|---|---|---|
| **In USD thousands** | **Change in Lapse Rate** | **Increase/ (decrease) on Liabilities** | **Increase/ (decrease) on pre-tax profit & loss** | **Increase/ (decrease) on Liabilities** | **Increase/ (decrease) on pre-tax profit & loss** |
| Insurance Contracts | Rate 25% higher | (38,770) | 455 | (28,978) | (2,122) |
| | Rate 25% lower | 39,371 | (932) | 23,191 | 1,790 |

| | | 2022 | | 2021 | |
|---|---|---|---|---|---|
| **In USD thousands** | **Change in Mortality Rate** | **Increase/ (decrease) on Liabilities** | **Increase/ (decrease) on pre-tax profit & loss** | **Increase/ (decrease) on Liabilities** | **Increase/ (decrease) on pre-tax profit & loss** |
| Insurance Contracts | Rate 10% higher | (11,681) | (8,906) | (6,515) | (923) |
| | Rate 10% lower | 12,705 | 7,000 | 5,820 | 877 |

## 6. Fair value measurement

The Group classifies fixed income securities as either available for sale (AFS) or fair value through profit or loss (FVTPL) depending upon management's intent for the portfolio. Changes to the fair value of FVTPL securities are reflected in the statement of profit or loss. Changes to the fair value of AFS securities are reflected as other comprehensive income within the statement of comprehensive income.

The following table presents the split between fixed income and equity within AFS securities.

| | | 2022 |
|---|---|---|
| **In USD thousands** | **Amortized Cost** | **Carrying Value** |
| AFS fixed income at fair value | 887,209 | 737,602 |
| AFS equity at cost | 8,954 | 8,954 |
| **AFS Securities** | **896,163** | **746,556** |

All AFS securities were fixed income at fair value at 31 December, 2021.

The Group's holdings in the unconsolidated affiliate entities are valued using the net asset values (NAVs) as an approximation to the fair value per the underlying audited financial statements. The Group holds embedded derivatives which are required to be separated from their host contracts and reported as derivatives. Host contracts include reinsurance agreements structured on a funds withheld basis. Included in the Investment related gains/(losses) is the change in fair value of the embedded derivatives (Note 9.3).

| In USD thousands | Level 1 | Level 2 | Level 3 | Total 2022 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **AFS Securities** | | | | |
| Corporate Bond Securities | – | 539,005 | 7,633 | 546,638 |
| Asset Backed Securities | – | 64,572 | – | 64,572 |
| Commercial Mortgage Backed Securities | – | 69,001 | – | 69,001 |
| Municipal Securities | – | 28,878 | – | 28,878 |
| US Government and Government Agency | 20,684 | – | – | 20,684 |
| Residential Mortgage Backed Securities | – | 5,862 | – | 5,862 |
| Non-US Government & Supranationals | – | 1,967 | – | 1,967 |
| **Total AFS Securities** | **20,684** | **709,285** | **7,633** | **737,602** |
| **FVTPL Securities** | | | | |
| Commercial Mortgage Backed Securities | – | 649 | – | 649 |
| Municipal Securities | – | 717 | – | 717 |
| **Total FVTPL Securities** | **–** | **1,366** | **–** | **1,366** |
| **Investments in unconsolidated affiliate entities - FVTPL** | – | 312,268 | – | 312,268 |
| **Funds withheld** | 99,988 | 3,701,414 | 58,220 | 3,859,622 |
| **Total financial assets** | **120,672** | **4,724,333** | **65,853** | **4,910,858** |

| | | | | 2021 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **AFS Securities** | | | | |
| Corporate Bond Securities | – | 709,910 | – | 709,910 |
| Commercial Mortgage Backed Securities | – | 81,428 | – | 81,428 |
| Asset Backed Securities | – | 43,241 | 6,000 | 49,241 |
| Municipal Securities | – | 37,834 | – | 37,834 |
| Residential Mortgage Backed Securities | – | 7,190 | – | 7,190 |
| US Government and Government Agency | – | 2,680 | – | 2,680 |
| **Total AFS Securities** | **–** | **882,283** | **6,000** | **888,283** |
| **FVTPL Securities** | | | | |
| Commercial Mortgage Backed Securities | – | 1,117 | 572 | 1,689 |
| Corporate Bond Securities | – | 1,375 | – | 1,375 |
| Municipal Securities | – | 819 | – | 819 |
| **Total FVTPL Securities** | **–** | **3,311** | **572** | **3,883** |
| **Investments in unconsolidated affiliate entities - FVTPL** | **–** | **360,524** | **–** | **360,524** |
| **Funds withheld** | **54,594** | **3,430,876** | **40,893** | **3,526,363** |
| **Total financial assets** | **54,594** | **4,676,994** | **47,465** | **4,779,053** |

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group has not transferred any assets or liabilities among the levels.

The Group considers prices for actively traded securities to be derived based on quoted prices in an active market for identical assets, which are level 1 inputs in the fair value hierarchy. Most securities are valued using prices supplied by pricing services. The Group considers prices for other securities that may not be as actively traded which are priced via pricing services, or with reference to interest rates and yield curves, to be derived based on inputs that are observable for the asset, either directly or indirectly, which are level 2 inputs in the fair value hierarchy.

US government and government agency securities include US treasuries. US treasury prices are from quoted (unadjusted) market prices in active markets, therefore, classified as level 1.

The following sections outline the valuation techniques and significant inputs used in the fair value measurement of financial instruments categorized within level 2 of the fair value hierarchy.

Corporate bond securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker/dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair value of these securities is classified within level 2.

Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. Agency originated securities include securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other U.S. government agencies. The significant inputs used to determine the fair value of these securities includes the spread above the risk-free yield curve, reported trades, benchmark yields, broker/dealer quotes, prepayment speeds, and default rates. These are considered observable market inputs and, therefore the fair values of these securities are classified within level 2.

Investments in unconsolidated affiliate entities classified as level 2 assets comprise of funds that are based on net asset values (NAV) substantiated by observable market data such as recent transactions or valuation techniques that reflect the market participant’s assumptions.

Level 3 unobservable inputs for the year ended December 31, 2022

Transfers from level 2 to level 3 are shown in the table below. The following table presents the Level 3 Assets of the Group:

**2022**

| **In USD thousands** | **AFS securities** | **FVTPL securities** | **Funds withheld** | **Total level 3 assets** |
|---|---|---|---|---|
| Balance, beginning of period | 6,000 | 572 | 40,593 | **47,165** |
| Purchases | 17,353 | – | 35,112 | **52,465** |
| Sales | (15,370) | (506) | (1,626) | **(17,502)** |
| Total gains/losses | | | | |
| Included in net profit | (350) | (66) | (1,947) | **(2,363)** |
| Included in OCI | – | – | – | **–** |
| Transfers into level 3 | – | – | – | **–** |
| Net transfers out of level 3 | – | – | (13,912) | **(13,912)** |
| **Balance, end of period** | **7,633** | **–** | **58,220** | **65,853** |
| Total gains/(losses) for the year included in investment related gains/(losses) related to investments held at 31 December 2022 | **(350)** | **(66)** | **(1,947)** | **(2,363)** |

**2021**

| **In USD thousands** | **AFS securities** | **FVTPL securities** | **Funds withheld** | **Total level 3 assets** |
|---|---|---|---|---|
| Balance, beginning of period | – | – | – | **–** |
| Purchases | 6,000 | – | 24,000 | **30,000** |
| Sales | – | – | – | **–** |
| Total gains/losses | | | | |
| Included in net profit | – | – | – | **–** |
| Included in OCI | – | – | – | **–** |
| Transfers into level 3 | – | 572 | 16,593 | **17,165** |
| Net transfers out of level 3 | – | – | – | **–** |
| **Balance, end of period** | **6,000** | **572** | **40,593** | **47,165** |
| Total gains/(losses) for the year included in Investment related gains/(losses) related to investments held at 31 December 2022 | **–** | **–** | **–** | **–** |

The following table presents the unobservable inputs that the Group used in the pricing of level 3 assets at year end, as well as a description of how changes in those unobservable inputs could affect the net profit or loss of the Group:

| Type of asset | Valuation technique | Significant unobservable input | Input value | Impact of changes to significant unobservable input |
|---|---|---|---|---|
| Corporate Bond Securities | Discounted cash flow model | Discount Rate | 6% | An increase to the discount rate would result in a decrease in the fair value of the asset. A decrease to the discount rate would result in an increase in the fair value of the asset. |
| Asset Backed Securities – Collateralized Fund Obligation Debt | Discounted cash flow model | Discount Rate | 4% - 10% | An increase to the discount rate would result in a decrease in the fair value of the asset. A decrease to the discount rate would result in an increase in the fair value of the asset. |

Solely Payments of Principal and Interest (SPPI)

As a result of the application of the temporary deferral of IFRS 9, the Group is not required to classify its financial assets as assets with SPPI and other financial assets. The disclosures have been prepared below to demonstrate the expected impact of applying IFRS 9 to the Group's current financial assets.

| In USD thousands | Fair Value | Change in FV | |
|---|---|---|---|
| | 2022 | | 2022 |
| | | Income | OCI |
| SPPI - AFS securities | 731,853 | (164,329) | – |
| SPPI - FVTPL securities | 1,366 | (359) | – |
| Other - AFS securities | 14,703 | (6,773) | – |
| Other - FVTPL securities | – | – | – |
| Other -Investments in unconsolidated affiliate entities – FVTPL | 312,268 | (25,063) | – |
| Other - Funds withheld | 3,859,622 | (646,261) | – |
| **Total** | **4,919,812** | **(842,785)** | – |

| In USD thousands | Fair Value | Change in FV | |
|---|---|---|---|
| | 2021 | | 2021 |
| | | Income | OCI |
| SPPI - AFS securities | 875,761 | (30,421) | – |
| SPPI - FVTPL securities | 3,883 | 246 | – |
| Other - AFS securities | 12,522 | (478) | – |
| Other - FVTPL securities | – | – | – |
| Other -Investments in unconsolidated affiliate entities – FVTPL | 360,524 | 69,161 | – |
| Other - Funds withheld | 3,526,363 | 11,409 | – |
| **Total** | **4,779,053** | **49,917** | – |

| In USD thousands | AAA | AA | A | BBB | Below BBB | Not rated | 2022 Total |
|---|---|---|---|---|---|---|---|
| SPPI - AFS securities | 83,676 | 95,037 | 261,622 | 280,143 | 5,265 | 6,110 | 731,853 |
| SPPI - FVTPL securities | – | – | 672 | 45 | 649 | – | 1,366 |
| **Total exposure to credit risks** | **83,676** | **95,037** | **262,294** | **280,188** | **5,914** | **6,110** | **733,219** |

| In USD thousands | AAA | AA | A | BBB | Below BBB | Not rated | 2021 Total |
|---|---|---|---|---|---|---|---|
| SPPI - AFS securities | 53,268 | 120,178 | 346,034 | 352,971 | 3,310 | – | 875,761 |
| SPPI - FVTPL securities | 450 | – | – | 819 | 1,238 | 1,376 | 3,883 |
| **Total exposure to credit risks** | **53,718** | **120,178** | **346,034** | **353,790** | **4,548** | **1,376** | **879,644** |

## 7. Fair value of financial instruments carried at notional amounts

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at their notional amounts.

**Fair Values**

| In USD thousands | Carrying amount 2022 | Fair value 2022 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 132,918 | 132,918 |
| Restricted cash and cash equivalents | 9,725 | 9,725 |
| Reinsurance receivables | 189,609 | 189,609 |
| Policy loans | 77,151 | 77,151 |
| Other assets | 23,570 | 23,570 |
| **Total** | **432,973** | **432,973** |

| In USD thousands | Carrying amount 2022 | Fair value 2022 |
|---|---|---|
| **Financial liabilities** | | |
| Reinsurance payables | 81,767 | 81,767 |
| Liabilities for life and health policy benefits | 668,504 | 623,749 |
| Liabilities for future policy benefits | 4,869,314 | 3,898,571 |
| Other liabilities | 17,726 | 17,726 |
| **Total** | **5,637,311** | **4,621,813** |

**Fair Values**

| In USD thousands | Carrying amount 2021 | Fair value 2021 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 124,969 | 124,969 |
| Restricted cash and cash equivalents | 60,490 | 60,490 |
| Reinsurance receivables | 4,071 | 4,071 |
| Policy loans | 53,587 | 53,587 |
| Other assets | 6,047 | 6,047 |
| **Total** | **249,164** | **249,164** |

| In USD thousands | Carrying amount 2021 | Fair value 2021 |
|---|---|---|
| **Financial liabilities** | | |
| Reinsurance payables | 77,696 | 77,696 |
| Liabilities for life and health policy benefits | 261,838 | 287,403 |
| Liabilities for future policy benefits | 4,032,672 | 3,856,674 |
| Other liabilities | 15,579 | 15,579 |
| **Total** | **4,387,785** | **4,237,352** |

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- The Group's cash and cash equivalents consists of cash on hand, cash at banks, cash in transit and short-term deposits with an original maturity of three months or less and are recognized at their notional amount.
- All receivables and payables approximate their fair values and are recognized at their notional amounts as they are short-term instruments and the effect of discounting them is considered immaterial.
- The carrying and fair value of liabilities for future policy benefits includes fixed indexed annuities, universal life, and traditional fixed annuities without mortality or morbidity risks. The valuation of these investment contracts is based on the account value. The estimated fair value is determined using current market risk-free interest rates, adding a spread to reflect the current risk profile of the Group's asset portfolio. Liabilities for future policy benefits include $22,602 (2021: $16,946) of non-modeled pay-out liabilities which are assumed to be carried at fair value.

- The carrying and fair value of liabilities for life and health policy benefits includes traditional life insurance. The valuation of these insurance contracts is based on discounted cash flow methodologies using significant unobservable inputs. The estimated fair value is determined using current market risk-free interest rates, adding a spread to reflect the current risk profile of the Group's asset portfolio. Liabilities for life and health policy benefits includes $7,773 (2021: $19,677) of non-modeled liabilities (IBNR, Policy loans, and Experience refunds) which are assumed to be carried at fair value.

## 8. Interests in unconsolidated affiliate entity

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group classifies its unconsolidated interests in structured entities at fair value through profit or loss. The Group invested in two entities at 31 December 2021, but only one entity at 31 December 2022.

The Group is the sole investor in the affiliate structured entity (investment fund) and is required to maintain a minimum investment amount in the structured entity that is subject to various conditions and performance requirements. The Group can partially redeem and/or liquidate its investment in the structured entity on a quarterly basis upon 45 days' prior written notice. The Directors of the structured entity have the authority to suspend redemption requests.

The Group does not control the structured entity as it has no power over activities that significantly drive the structured entity's economic performance (i.e., the Group is not involved in the investment decision process or has any decision rights). These activities are carried out solely by the entity managing the Group's investment and therefore the Group does not consolidate the structured entity. Instead, the "net approach" (net asset value accounting) is applied.

The carrying amount of the Group's investment in the unconsolidated structured entity approximates the fair value that is disclosed in the statement of the financial position. The structured entity does not have any recourse rights to the Group and the Group's maximum exposure to loss is the carrying amount of the structured entity that is disclosed in the statement of financial position.

The Group has a loan facility agreement with the unconsolidated affiliate entity as the "Lender" with a maximum borrowing amount of $1,500,000 but limited to $306,226 (2021: $463,825) as at the year-end date. The agreement has a maturity date of five years from the date of the agreement, upon which the outstanding balance will be due and payable. The agreement includes the right to offset the loan against the investment in the unconsolidated affiliate entities.

| **In USD thousands** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
|---|---|---|---|---|
| | **2022** | **2022** | **2021** | **2021** |
| Gross Amounts of Recognized Assets and Liabilities on the Statement of Financial Position | 510,377 | (198,109) | 773,042 | (412,518) |
| Gross Amounts Offset on the Statements of Financial Position | (198,109) | 198,109 | (412,518) | 412,518 |
| **Net investments in unconsolidated affiliate entities - FVTPL** | **312,268** | **-** | **360,524** | **-** |

The interest rate on amounts borrowed is SOFR + 0.5% and interest is due to the Lender at the end of each 90-day period. The interest expense paid to the Lender for the year ended 31 December 2022 is $5,399 (2021: $2,142) and the balance owing to the Lender at 31 December 2022 is USD $770 (2021: $179).

### 9. Details of certain items in the statements of profit or loss

#### 9.1. Other insurance income

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Policy fee income | 10,467 | 10,711 |
| Surrender charges | 2,648 | 857 |
| Interest income on policy loans | 2,744 | 2,762 |
| Separate account fee | 7,207 | 10,004 |
| **Total other insurance income** | **23,066** | **24,334** |

#### 9.2. Net investment income

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Interest income on funds withheld | 115,235 | 102,967 |
| Investment income (loss) on investments in unconsolidated affiliate | (25,063) | 69,161 |
| Interest income on AFS securities | 28,730 | 24,482 |
| Interest income on FVTPL securities | 273 | 477 |
| Other investment income | 1,755 | 820 |
| Investment related expenses | (15,911) | (13,055) |
| **Net investment income** | **105,019** | **184,852** |

#### 9.3. Investment related gains/(losses)

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Net change in embedded derivative in funds withheld | (763,135) | (158,089) |
| Net realized gain on funds withheld | 1,639 | 66,531 |
| Net realized gains/(losses) on AFS securities | (6,515) | (3,518) |
| Net recognized gains/(losses) on FVTPL securities | (1,306) | (5,859) |
| **Total investment related gains/(losses)** | **(769,317)** | **(100,935)** |

### 9.4. Acquisition costs

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Commissions received from ceding company | (131) | (157) |
| Commissions paid to ceding company | (61) | 1,812 |
| Change in deferred acquisition costs | (34,062) | 12,152 |
| Change in unearned revenue liability | (654) | (12,978) |
| Other direct acquisition costs | 162 | 114 |
| **Total acquisition costs** | **(34,746)** | **943** |

### 9.5. Other insurance expenses

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Premium taxes and maintenance expenses | 22,059 | 18,227 |
| Policyholder dividends | 1,234 | 1,083 |
| **Total other insurance expenses** | **23,293** | **19,310** |

### 10. Details of certain items in the statements of financial position

### 10.1. Funds withheld

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Funds withheld | 4,567,114 | 3,470,720 |
| Fair value of embedded derivative in funds withheld | (707,492) | 55,643 |
| **Total funds withheld** | **3,859,622** | **3,526,363** |

### 10.1.1 Funds withheld by sector

The following provides details of the carrying value of assets included in the funds withheld by asset class:

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | 60,119 | 84,522 |
| Corporate bond securities | 2,877,634 | 2,633,818 |
| Asset backed Securities | 362,878 | 323,637 |
| Commercial mortgage backed securities | 211,307 | 164,655 |
| Municipal securities | 193,606 | 215,765 |
| US government and government agency | 84,478 | 18,358 |
| Other equities | 23,331 | 5,000 |
| Non US government & supranational | 19,837 | 29,368 |
| Preferred Shares | 16,095 | 27,051 |
| Residential mortgage backed securities | 10,337 | 24,189 |
| **Total funds withheld** | **3,859,622** | **3,526,363** |

### 10.2. Other assets

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Investments pending settlement | 2,179 | 1,192 |
| Accrued income and prepayments | 7,761 | 8,241 |
| Other receivables | 6,606 | 4,855 |
| Deferred tax assets | 114,310 | 6,017 |
| Property and equipment | 110 | 27 |
| Intangible assets | 402 | 553 |
| Due from related party | 7,400 | - |
| **Total other assets** | **138,768** | **20,885** |

### 10.3. Other Liabilities

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Payroll and employee related expenses | 800 | 563 |
| Accrued expenses | 17,034 | 9,204 |
| Lease liabilities | - | 27 |
| Corporate tax provisions/(receivable) | - | (1,552) |
| Investments pending settlement | - | 4,310 |
| Other tax liabilities (deferred tax liabilities 2022: $nil 2021: $1,930) | 2 | 2,013 |
| Due to related party | 14,556 | 10,029 |
| **Total other liabilities** | **32,392** | **24,594** |

### 11. Insurance reserves and related capitalized costs

Liabilities for life and health policy benefits

The provision for life policy benefits is calculated using expected future policy lapse rates, mortality, morbidity, investment yield and policy maintenance expense assumptions and any other relevant contingency.

The provisions for adverse deviation recognize uncertainty in establishing these best estimates and allow for possible deterioration in experience. As the best estimate assumption is realized, the provisions for adverse deviation will be released in future income to the extent that they are no longer required to cover adverse experience. The assumptions used in determining the provision for life policy benefits are reviewed regularly, compared to emerging experience and updated when appropriate. The assumptions that are most sensitive to change are investment yields, expenses, policy lapse rates, mortality and morbidity.

### 11.1 Analysis of liabilities for life and health policy benefits:

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Provision for life and health policy benefits (including adverse deviation) | 665,815 | 259,738 |
| Incurred but not reported policy benefits | 2,689 | 2,100 |
| **Total liabilities for life and health policy benefits** | **668,504** | **261,838** |

### 11.2 Analysis of liabilities for future policy benefits:

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Provision for future policy benefits for non-traditional life insurance | 120,484 | 120,458 |
| Provision for future policy benefits for annuities | 4,439,997 | 3,587,113 |
| Provision for structured liabilities | 308,833 | 325,101 |
| **Total liabilities for future policy benefits** | **4,869,314** | **4,032,672** |

### 11.3 Analysis of change in liabilities for life and health policy benefits and future policy benefits:

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Balance, beginning of period | 4,294,510 | 4,128,197 |
| Expected changes in traditional life policy liabilities | (7,266) | (23,494) |
| Expected changes in future policy benefit liabilities | (224,157) | (69,264) |
| Expected changes in structured liabilities | (16,268) | - |
| Additions (Release) in traditional life policy liabilities | 413,344 | 5,609 |
| Additions (Release) in future policy benefits | 1,077,065 | 267,132 |
| Additions (Release) in structured liabilities | - | (13,840) |
| Changes in assumptions and refinement of estimates for traditional life policy benefits | 741 | (62) |
| Changes in assumptions and refinement of estimates for future policy benefits for non-traditional life insurance | (151) | 232 |
| **Total liabilities for life and health policy benefits** | **5,537,818** | **4,294,510** |

### 11.4 Analysis of benefits and claims under insurance contracts:

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Claims and surrenders paid for traditional life policy benefits | 20,318 | 44,015 |
| Claims paid for future policy benefits | 17,257 | 15,377 |
| Interest expenses (crediting rate) | 106,853 | 107,463 |
| Changes in reserves | 140,607 | 2,238 |
| **Total benefits and claims under insurance contracts** | **285,035** | **169,093** |

### 11.5 Analysis of change in deferred acquisition costs:

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Balance, beginning of period | 65,279 | 55,727 |
| Additions | 56,004 | 14,720 |
| Changes in deferred acquisition costs | 34,062 | (12,152) |
| Net shadow accounting adjustments | 12,228 | 6,984 |
| **Balance, end of period** | **167,573** | **65,279** |

### 11.6 Analysis of change in unearned revenue liability:

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Balance, beginning of period | 136,046 | 124,359 |
| Additions | (356) | 25,003 |
| Change in unearned revenue liability | (654) | (12,978) |
| Net shadow accounting adjustments | 37 | (338) |
| **Balance, end of period** | **135,073** | **136,046** |

## 12. Share awards and option compensation plans

Amounts in this note are presented in units and US Dollars.

On December 2022, as part of the interposition and merger all issued share-based compensation in the Group has been exercised, repurchased/cancelled, or reissued as share based compensation in SHIL and SRHL.

The Group issued the following share-based compensation to directors and employees as adopted by the Board of Directors. The criteria which must be fulfilled by a beneficiary to be granted share-based compensation under the plan shall be set by the Board of Directors in its sole discretion.

Each option entitles the beneficiary to acquire one common share of parent against payment of the exercise price. Once they have vested, the options are exercisable up to the tenth anniversary of the granting date. The method of settlement of the option is by cash. The Group recognizes the acquisition of the options due to related party. The Group has no legal or constructive obligation to repurchase the options.

Employee Stock Option Plan

Employee Stock Option Plan in the following groups with different strike prices and vesting conditions attached.

| ESOP | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Group 1A** | **Group 1B** | **Group 2A** | **Group 2B** | **Group 3A** | **Group 3B** | **Group 4A** | **Group 4B** |
| Options Granted | 4,099,421 | 1,299,000 | 1,366,474 | 533,000 | 1,306,474 | 443,000 | 150,000 | - |
| Options Forfeited | (1,624,621) | (349,800) | (668,474) | (171,000) | (668,474) | (171,000) | (90,962) | - |
| Options Exercised | (2,474,800) | (949,200) | (418,000) | (242,000) | (358,000) | (152,000) | (59,038) | - |
| Options Repurchased/ Cancelled | - | - | (280,000) | (120,000) | (280,000) | (120,000) | - | - |
| Options Outstanding | - | - | - | - | - | - | - | - |
| Weighted Average Exercise Price - Beginning of period | USD $10.00 | | USD $16.11 | | USD $20.11 | | USD $10.00 | |
| Weighted Average Exercise Price - Ending of Period | USD $0.00 | | USD $0.00 | | USD $0.00 | | USD $0.00 | |
| Vesting Period | 20% on each anniversary of the Granting Date for five consecutive years. | 20% on each anniversary of the Granting Date for five consecutive years. | 100% on the third anniversary of the Granting Date. | 100% on the third anniversary of the Granting Date. | 100% on the third anniversary of the Granting Date. | 100% on the third anniversary of the Granting Date. | 20% on each anniversary of the Granting Date for five consecutive years. | 20% on each anniversary of the Granting Date for five consecutive years. |

In 2022, 4,730,038 options were exercised at a weighted average price of $3.991 (2021: Nil). In 2022, there were no issuances or forfeitures under ESOP (2021: Nil).

Employee Equity Incentive Plans (EEIP)

The Group issued the following under the two Employee Equity Incentive Plans (EEIP) for options and restricted stock, one under SHIL and one under SRHL.

Stock options under EEIP

| | **Total** |
|---|---|
| Options Granted | 5,837,500 |
| Options Forfeited | (250,000) |
| Options Exercised | (2,662,500) |
| Options Repurchased/Cancelled | (1,462,500) |
| Options Outstanding | 1,462,500 |
| Weighted Average Exercise Price - Beginning of period | USD $13.09 |
| Weighted Average Exercise Price - Ending of Period | USD $13.13 |
| Vesting Period | 20% to 50% on each anniversary of the granting date. |

Under this plan 1,462,500 options were issued in 2022 (2021: 2,400,000) with a weighted average exercise price of $13.13 (2021: $13.31). The fair value of the 2022 issued options granted was determined using a Black Scholes model. The significant inputs into the model are as follows:

| | Total |
|---|---|
| Weighted Average Strike Price | $13.04 |
| Expected Volatility | 15.00% |
| Risk-Free Interest Rate | 3.88% |
| Expected Dividend Yield | 0% |
| Expected Life (years) | 6.5 |

During 2022 no options were forfeited. In 2021, 250,000 options with an exercise price of $13.00, were forfeited under EEIP. The total expense recognized relating to share options in the statement of profit and loss for the year ended 31 December 2022 the expense is $3,723,691 (2021: $3,465,092). This includes accelerated vesting of $1,097,210.

Restricted share grants

| | Total |
|---|---|
| RSG Granted | 1,596,641 |
| RSG Vested | (466,174) |
| RSG Forfeited | (502,800) |
| RSG Repurchased/Cancelled | (806,008) |
| Total RSG | 287,834 |
| Weighted Average Price, Beginning of Period | $13.00 |
| Weighted Average Price, End of Period | $16.78 |
| Vesting Period | 20% - 50% on each anniversary of the Granting Date. |

The Group granted 566,141 in 2022 (2021: 321,500) restricted stock grants as compensation with a weighted average share price of $14.35 (2021: $13.00) per share.

During 2022 there were no RSG forfeited (2021: 34,800) with a weighted average share price of $Nil (2021: $13.00). RSG holders are entitled to the same dividends and payments as the standard shareholder. The total expense recognized relating to RSG of $5,470,940 (2021: $1,054,764). This includes accelerated vesting of $2,156,940.

### 13. Income tax (benefit)/expense

The Group recognized income taxes in the Statement of profit or loss on its profits for the reporting period.

| **In USD thousands** | **2022** | **2021** |
|---|---|---|
| Current income tax expense | (4,424) | (264) |
| Deferred income tax expense | (90,371) | (5,161) |
| **Total income tax expense** | **(94,795)** | **(5,425)** |

The actual income tax expense differs from the expected amount as follows:

| In USD thousands | 2022 | 2021 |
|---|---|---|
| **Profit/(loss) before income tax** | **(775,992)** | **(48,314)** |
| Tax rate | 12.50% | 12.50% |
| Income tax calculated using the tax rate | - | - |
| Increase/(reduction) in taxes resulting from: | | |
| adjustments for permanent and temporary differences | 745 | 122 |
| recognition of tax-loss and tax credits | (96,399) | (5,283) |
| used tax loss and tax credits | 5,283 | - |
| tax adjustment for prior year | (4,424) | (264) |
| **Income tax expense/(benefit)** | **(94,795)** | **(5,425)** |

Deferred tax assets and liabilities

The Group has recognized the following net tax assets and liabilities.

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Deferred tax assets | 114,310 | 6,017 |
| Deferred tax liabilities | - | (1,930) |
| **Net deferred taxes** | **114,310** | **4,087** |

At 31 December 2022, the Group recognized deferred tax assets resulting from tax loss carry forwards of $96,361 (2021: $5,283) that do not expire, and the Group expects to be able to utilize this in future periods.

**14. Equity**

Share Capital

For all share capital, par value is $1.00 (one dollar). These are issued and fully paid.

| In USD thousands | 2022 | | 2021 | |
|---|---|---|---|---|
| | Number | Carrying Value | Number | Carrying Value |
| **Common Shares** | | | | |
| Authorized | 250 | - | 250 | - |
| Issued and Outstanding | 250 | $250 | 250 | $250 |
| **Total Shares Issued and Outstanding** | **250** | **$250** | **250** | **$250** |
| Additional paid in capital | | $501,568 | | $408,368 |
| **Total Equity** | | **$501,568** | | **$408,368** |

During 2021 the Group reorganization resulted in Somerset Re Ltd. merging with Somerset Merger Company Ltd. this caused a reduction to authorized shares to 250,000 shares wholly owned by Somerset Re Holdings Ltd. The value of the Group equity did not change as a result of this merger. While the shares were reduced to the legal minimum of shares required, the balance of shares previously held was transferred to Share capital/Additional Paid in Capital. These changes are in accordance with the Somerset Merger agreement dated 24 May 2021. No new shares have been issued in 2022 (2021: Nil) and none repurchased (2021: Nil).

Equity increased during 2022 by $93,200 additional paid in capital contributed from SRHL.

**15. Capital management**

The Group's objectives when managing capital are to comply with the regulatory capital requirements, to define and manage economic capital and to fulfill the Group's target on rating agency capital requirements. The Group also actively manages the composition and quality of the capital to continuously optimize its capital structure. The Group is supervised by the Bermuda Monetary Authority (BMA), the regulatory body in Bermuda, which obtained Solvency II equivalence. Under BMA regulations, the Group is licensed as a Class E insurer and the Group has to meet and maintain the relevant solvency margin and an enhanced capital requirement in accordance with the provisions of the Insurance Act, 1978 of Bermuda. As of 31 December 2022 and 2021, the amount of statutory capital and surplus exceeds the minimum solvency margin requirement.

The Bermuda Insurance Act 1978 and Related Regulations limits the maximum amount of annual dividends and distributions that may be paid by the Group. Before reducing by 15 percent or more of its statutory capital, as set out in the prior year's financial statements, the Group shall request the approval of the BMA. In addition, the Bermuda Companies Act 1981 limits the Group's ability to pay dividends and distributions to shareholders if there are reasonable grounds for believing that the Group would be unable to pay its liabilities as they become due, or if the realizable value of its assets would be less than the aggregate of its liabilities, issued share capital and contributed surplus accounts. The Group meets all requirements of the Act and there are no additional restrictions on the distribution of retained earnings.

No dividends have been paid in 2022 (2021 $Nil).

**16. Related party transactions**

The Group's founding investor is the managing member of the entity managing the Group's investment in the unconsolidated affiliate entities. The Group has reimbursed the entity managing the Group's investment in the unconsolidated affiliate entities for expenses incurred and paid $9,107 (2021: $167) during the year. The Group paid investment management fees of $13,706 (2021: $15,387) and investment performance fees of $Nil (2021: $19,357). At 31 December 2021, the Group has no receivable from the investment manager (2021: $Nil) and a payable of $Nil (2021: 4,310).

The Group's transactions with the unconsolidated affiliate entities are disclosed in Note 8.

The Group has related party payables to the Parent included in Note 10.3 relating to Long Term Incentives.

Key management compensation

Key management consists of the members of the Board of Directors of the Group and the members of the Senior Management Team of the Group. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Group.

| In USD thousands | 2022 | 2021 |
|---|---|---|
| Short-term employee benefits | 9,641 | 11,109 |
| Long-term incentive benefits | 9,150 | 4,285 |
| Directors' fees | 194 | 449 |
| **Total key management compensation** | **18,985** | **15,843** |

The Group has defined contribution pension plans for its employees. The expense recognized for these obligations in the reporting period, due to key management was $275 (2021: $308).

### 17. Contingent liabilities and other financial commitments

At 31 December 2022 the Group had outstanding letter of credit facilities valued at $175,000 (2021: $124,100) and has utilized $93,775 (2021: $51,175).

The Group party to a reinsurance agreement where remote risks are being assumed, no assets or liabilities are being transferred to the Group. Risks, if any, would transfer to the Group if the cedant does not renew or recapture from the current reinsurer.

It is not expected that any future payment will have an effect on the consolidated financial position of the Group.

At 31 December 2022, the contingent assets and liabilities were as follows:

| In USD thousands | 2022 |
|---|---|
| Assets | 518,265 |
| Liabilities | 416,595 |
| **Net impact** | **101,670** |

Other than the above, the Group is not aware of any guarantees or commitments that have not been adequately presented.

### 18. Events after the reporting period

The Group is not aware of any material events that were not recorded or disclosed in these financial statements.