Symetra Bermuda Re, Ltd.

Financial Statements

December 31, 2022

With Independent Auditors' Report

SYMETRA BERMUDA RE, LTD.
FINANCIAL STATEMENTS

Table of Contents

KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton
HM 08
Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 9132
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Symetra Bermuda Re Ltd.

Opinion

We have audited the financial statements of Symetra Bermuda Re Ltd. (the "Company"), which comprise the balance sheet as of December 31, 2022 , and the related statements of income (loss), statement of comprehensive income (loss), statement of changes in stockholder's equity and statement of cash flows for the period from September 14, 2022 to December 31, 2022, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the period from September 14, 2022 to December 31, 2022 in accordance with U.S. generally accepted accounting principles.

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

In performing an audit in accordance with GAAS, we:

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

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

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
June 21, 2023

SYMETRA BERMUDA RE, LTD.
BALANCE SHEET
(In thousands, except share and per share data)

		As of December 31, 2022
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: $37,869)	$	37,150
Cash		70,776
Accrued investment income		274
Funds withheld receivable		2,970,590
Deferred acquisition costs		225,981
Deferred income tax assets, net		33,315
Total assets	$	3,338,086
LIABILITIES AND STOCKHOLDER'S EQUITY		
Deposit liability	$	3,216,008
Reinsurance payable		70,841
Payable to affiliates		781
Other liabilities		535
Total liabilities		3,288,165
Common stock, $1 par value; 250,000 shares authorized, issued, and outstanding		250
Additional paid-in capital		175,000
Retained earnings (deficit)		(124,761)
Accumulated other comprehensive income (loss), net of taxes		(568)
Total stockholder's equity		49,921
Total liabilities and stockholder's equity	$	3,338,086

See accompanying notes.

SYMETRA BERMUDA RE, LTD.
STATEMENT OF INCOME (LOSS)
(In thousands)

		For the Period from September 14, 2022 to December 31, 2022
Revenues:		
Net investment income	$	43,920
Realized gain (loss) on funds withheld		(170,691)
Total revenues		(126,771)
Benefits and expenses:		
Benefit expense		24,399
Expense allowance		491
Operating expenses		1,305
Amortization of DAC		4,959
Total benefits and expenses		31,154
Income (loss) from operations before income taxes		(157,925)
Provision (benefit) for income taxes:		
Deferred		(33,164)
Total provision (benefit) for income taxes		(33,164)
Net income (loss)	$	(124,761)

See accompanying notes.

SYMETRA BERMUDA RE, LTD.
STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	For the Period from September 14, 2022 to December 31, 2022
Net income (loss)	$ (124,761)
Other comprehensive income (loss), net of taxes and reclassification adjustments:	
Changes in unrealized gains (losses) on available-for-sale securities (net of taxes of: **$(151)**)	(568)
Other comprehensive income (loss)	(568)
Total comprehensive income (loss)	$ (125,329)

See accompanying notes.

SYMETRA BERMUDA RE, LTD.
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
(In thousands)

	For the Period from September 14, 2022 to December 31, 2022				
	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
Net income (loss)	—	—	(124,761)	—	(124,761)
Shares issued	250	—	—	—	250
Capital contributions	—	175,000	—	—	175,000
Other comprehensive income (loss)	—	—	—	(568)	(568)
Balances as of December 31, 2022	$ 250	$ 175,000	$ (124,761)	$ (568)	$ 49,921

See accompanying notes.

SYMETRA BERMUDA RE, LTD.
STATEMENT OF CASH FLOWS
(In thousands)

	For the Period from September 14, 2022 to December 31, 2022
Cash flows from operating activities	
Net income (loss)	$ (124,761)
Adjustments to reconcile net income to net cash used by operating activities:	
Accretion and amortization of fixed maturities, net	(5)
Amortization of deferred acquisition costs	4,959
Policy acquisition costs deferred	(230,940)
Realized gain (loss) in funds withheld	170,691
Deferred income tax provision (benefit)	(33,164)
Other changes in:	
Accrued investment income	(274)
Funds withheld receivable	(3,141,281)
Deposit liabilities	3,216,008
Reinsurance payable	70,841
Payable to affiliates	781
Other liabilities	535
Total adjustments	58,151
Net cash used in operating activities	(66,610)
Cash flows from investing activities	
Purchase of fixed maturities, AFS	(37,864)
Net cash used in investing activities	(37,864)
Cash flows from financing activities	
Issuances of common stock	250
Capital contributions received	175,000
Net cash provided by financing activities	175,250
Net increase in cash	70,776
Cash at beginning of period	—
Cash at end of period	$ 70,776

See accompanying notes.

1. Description of Business

Symetra Bermuda Re, Ltd. (the Company) is a Bermuda exempted company, which was incorporated on September 14, 2022 and subsequently approved by the Bermuda Monetary Authority as a Class C reinsurer effective December 9, 2022, pursuant to Section 4 of the Insurance Act of 1978 of Bermuda. The Company is a wholly-owned subsidiary of Symetra Financial Corporation (Symetra or the Parent) and is engaged in the reinsurance of fixed indexed and fixed deferred annuity business from Symetra Life Insurance Company (Symetra Life), a subsidiary of the Parent. The Parent is a wholly-owned subsidiary of Sumitomo Life Insurance Company, a mutual company (sougo kaisha) organized under the laws of Japan.

On December 20, 2022, the Company entered into a modified coinsurance agreement with Symetra Life which covers an 80% quota share of certain fixed indexed annuities (FIA) and fixed deferred annuities issued by Symetra Life on and after January 1, 2022.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP).

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that may affect the amounts reported on the financial statements and accompanying notes. The most significant estimates include those used to determine the following: valuation of investments carried at fair value; the balance, recoverability, and amortization of deferred policy acquisition costs (DAC); valuation of the deposit liability and funds withheld asset; valuation of embedded derivatives; and valuation of deferred tax assets. The recorded amounts reflect management's best estimates, though actual results could differ from those estimates.

Cash

Cash consists of demand bank deposits carried at cost, which approximates fair value. The Company has deposits with certain financial institutions which exceed federally insured limits. The Company has reviewed the creditworthiness of these financial institutions and believes there is minimal risk of material loss.As of December 31, 2022, $70.526 or 99% of total cash was held at one highly rated financial institution.

Subsequent Events

The Company has evaluated subsequent events through June 21, 2023, the date these financial statements were available to be issued.

On March 30, 2023, the Company received a capital contribution of $50 million from its Parent.

On June 5, 2023, the Company received a capital contribution of $50 million from its Parent.

Accounting Pronouncements Not Yet Adopted

ASU 2018-12 Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts (LDTI). This standard, as amended, substantially changes the accounting treatment of long-duration insurance contracts. Entities will be required to regularly review and update assumptions used to measure the liability for future policy benefits that were previously locked at contract inception and held constant over the contract term. Assumptions used to measure discounted cash flows will be reviewed at least annually, and the discount rate assumption will be updated at each reporting date based on a standardized, market-observable discount rate.

Entities will also be required to use a fair value model to measure product features with market risk benefits, with the insurance accrual model no longer an option. The guidance simplifies the deferred policy acquisition costs (DAC) amortization method for all long-duration contracts by replacing the previous earnings-based methods with a constant level approach. The guidance will also require additional financial statement disclosures, including a rollforward of the liability and information about significant assumptions used, as well as a transition adjustment in the year of adoption. The guidance is effective for the year ended December 31, 2025 and interim periods thereafter, with early adoption permissible.

The Company is evaluating the impact of the guidance on its assumed annuity contracts, DAC amortization models, as well as reviewing its policies, processes, and applicable systems to determine the impact the guidance will have on its operations and financial statements. The Company plans to adopt this standard using the modified retrospective approach effective January 1, 2025.

(All dollar amounts in thousands, unless otherwise stated)

ASU 2022-05 Financial Services — Insurance (Topic 944): Transition for Sold Contracts. This standard which amends transition guidance in ASU 2018-12 allows companies to make an election to exclude contracts that have been derecognized because of a sale or disposal of individual or a group of contracts or legal entities from the targeted improvements to the accounting for long-duration contracts. To qualify, certain conditions must be met as of the LDTI effective date. This standard is effective for the year ended December 31, 2025 and interim periods thereafter, with early adoption permissible.

The Company is evaluating the impact of the updated guidance on its assumed annuity contracts that meet the criteria of the standard. The Company plans to adopt this standard effective January 1, 2025.

3. Fixed Maturities

The Company classifies its fixed maturities as available-for-sale (AFS) and carries them at fair value. AFS transactions are recorded on a trade date basis. Expected credit losses are recorded through an allowance.

The Company reports net unrealized gains (losses) related to its AFS securities in accumulated other comprehensive income (loss) (AOCI) in stockholder’s equity, net of any related DAC adjustments and deferred income taxes. The cost of securities sold is determined using the specific-identification method.

The Company reports interest, including prepayment fees or interest-related make whole payments, in net investment income on the statement of income (loss). Prepayments of fixed maturities results in accelerated amortization or accretion of the premium or discount associated with the investment. There were no prepayments for the year ended December 31, 2022.

The Company reports gains and losses on fixed maturities securities due to the early liquidation, either through a call or tender offer, in net investment income on the statement of income (loss) to the extent that the proceeds exceed the par value of the investment. Any difference between the book value and par value at the time of disposal is recorded on the statement of income (loss). There were no gains and losses on fixed maturities for the year ended December 31, 2022.

Interest income for fixed maturities is recognized using the effective yield method. Quarterly, the Company compares actual prepayments to anticipated prepayments and recalculates the effective yield to reflect actual payments plus anticipated future payments. The Company includes any resulting adjustment in net investment income in the current period.

The following tables summarize the Company's AFS fixed maturities:

	As of December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Expected Credit Losses	Fair Value
Corporate securities	$ 37,869	$ —	$ (719)	$ —	$ 37,150
Total AFS fixed maturities	$ 37,869	$ —	$ (719)	$ —	$ 37,150

The Company maintains a diversified portfolio of corporate fixed maturity securities across industries. The following table presents the composition of the Company's AFS corporate securities portfolio by sector:

	As of December 31, 2022	
	Fair Value	% of Total
Financials	$ 30,862	83.1 %
Consumer discretionary	4,881	13.1
Consumer staples	1,407	3.8
Total	$ 37,150	100.0 %

(All dollar amounts in thousands, unless otherwise stated)

The following table summarizes the amortized costs and fair values of AFS fixed maturities as of December 31, 2022 by contractual years to maturity. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Fair Value
One year or less	$ —	$ —
Over one year through five years	20,465	20,208
Over five years through ten years	17,404	16,942
Over ten years	—	—
Total with contractual maturity dates	37,869	37,150
Total AFS fixed maturities	$ 37,869	$ 37,150

Based on NAIC ratings as of December 31, 2022, all of the Company's bonds were investment grade.

Allowance for Expected Credit Losses

The Company evaluates all securities in an unrealized loss position (i.e., underwater) for impairments and determines whether the decline in fair value has resulted from an expected credit loss or other factors. An expected credit loss is recorded as an allowance and the allowance is evaluated quarterly. Initial recognition and subsequent changes in the allowance are recognized on the statement of income (loss). There was no allowance recorded as of December 31, 2022. Amounts determined uncollectible are written off as a reduction to amortized cost and removed from the allowance. Any remaining non-credit related unrealized loss is recorded through other comprehensive income (loss) (OCI) on the statement of comprehensive income (loss).

The Company uses both quantitative and qualitative criteria to review AFS fixed maturities for expected credit losses. Based on the Company's experience, investments with amortized cost exceeding estimated fair value by less than 20% do not typically represent a significant risk of expected credit loss under normal market conditions. For those with amortized cost exceeding estimated fair value by over 20% and those that were downgraded by a rating agency, the Company compares the security's implied credit spread to the benchmark spread for bonds with significant credit risk. If the security's spread exceeds the defined tolerance compared to this benchmark, the Company further analyzes the decrease in fair value to determine whether expected credit loss exists by considering, among other factors, the following:

- Extent of downgrades of the security by a rating agency;
- Extent of the decline in fair value below amortized cost due to credit and non-credit related events;
- Financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations, earnings potential or compliance with terms and covenants of the security;
- Changes in the financial condition of the security's underlying collateral; and
- Nonpayment of scheduled interest.

Determination of Credit-Related Allowance for Expected Credit Losses

If the Company determines an expected credit loss exists, the amount of the expected credit loss equals the difference between amortized cost and recovery value of the security, and is limited by the amount that the fair value is less than the amortized cost basis. The Company calculates the recovery value using a discounted cash flow model. The discount rate used to determine the recovery value is the original effective yield for corporate securities.

To determine the recovery value for a corporate security, the Company's analysis may include, but may not be limited to, the following:

- Expected cash flows of the issuer;
- Fundamentals of the industry in which the issuer operates;
- Expectations regarding defaults and recovery rates; and
- Third-party guarantees.

If the Company determines it intends to sell or it is more likely than not that the Company will be required to sell the security before the recovery of its amortized cost, or if the security is considered to be in default, the entire unrealized loss is recognized on the statement of income (loss). Amortized cost is reduced to fair value and any related allowance for expected credit losses is reversed.

(All dollar amounts in thousands, unless otherwise stated)

The Company reviewed its AFS fixed maturities with unrealized losses for which an expected credit loss is not recorded as of December 31, 2022 and determined that it expects to recover the entire amortized cost basis of the securities. The Company did not intend to sell these underwater securities and it was not more likely than not that the Company would be required to sell the securities before recovery of amortized cost. The unrealized losses as of December 31, 2022 largely reflected the impacts of rising interest rates and widening credit spreads, as well as inflationary pressure, geopolitical tension, and uncertainty. These unrealized losses were not due to significant deterioration in the underlying credit fundamentals of the issuers. This conclusion is supported by the Company's spread analysis, cash flow modeling, and expected continuation of contractually required principal and interest payments.

The Company has made the policy election to exclude accrued interest in its review for expected credit losses. The Company typically places securities with receivables 30 days past due or that have defaulted on nonaccrual status and writes off the uncollectible accrued interest by reversing interest income. The receivables are not restored to accrual status until all delinquent interest and principal are paid.

As of December 31, 2022, accrued interest on AFS fixed maturities was $274, and is included in accrued investment income on the balance sheet. For the year ended December 31, 2022, no amounts were considered uncollectible.

Net Investment Income

The following table summarizes the Company's net investment income:

	For the Year Ended December 31, 2022
Fixed maturities – AFS	$ 84
Other	18
Assumed net investment income on funds withheld	43,829
Total investment income	43,931
Investment expenses	(11)
Net investment income	$ 43,920

4. Funds Withheld Receivable

Assets supporting the net statutory reserves of the assumed contracts are withheld and legally owned by Symetra Life, the ceding company. These are reported as funds withheld receivable on the balance sheet. Adjustments to the funds withheld receivable are based upon the investment and benefit amounts assumed during the period, which are presented in net investment income on the statement of income (loss). The funds withheld receivable is composed of the host contract and an embedded derivative. See Note 5 for further discussion of the embedded derivative.

The following table provides a reconciliation of the beginning and ending balance for the funds withheld receivable:

	As of December 31, 2022
Funds transferred upon contract inception	$ 2,115,082
Settlements during the period	1,001,580
Investment income during the period	17,092
Realized loss during the period	(2,164)
Changes in fair value of embedded derivative	(161,000)
Funds withheld receivable at end of period	$ 2,970,590

5. Derivative Instruments

The reinsurance agreement written on a funds withheld basis contains an embedded derivative, which is recorded at fair value in the funds withheld receivable on the balance sheet. The right to receive the total return on the assets supporting the funds withheld represent a total return swap as all investment related risks on the portfolio are assumed by the Company. The value of the embedded derivative equates to the difference between the inception market value of modified coinsurance assets of the investment portfolio less the fair market value of the investment portfolio at the end of the period. For the year ended December 31, 2022, changes in fair value of the embedded derivative was $161,000 and is recognized in realized gain (loss) on funds withheld on the statement of income (loss). The embedded derivative value was zero at the inception of the reinsurance agreement and subsequently valued based on the change in fair value of the assets.

(All dollar amounts in thousands, unless otherwise stated)

The derivative is not designated for hedge accounting. The instruments are bifurcated from the host contract for measurement purposes because it possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract.

The following table presents the fair value of the Company's derivative instruments:

	As of December 31, 2022
	Assets
Embedded derivative – Funds withheld	$ 161,000

6. Reinsurance

The Company assumes insurance contracts under modified coinsurance. Reinsurance accounting is applied to business assumed where the risk transfer provisions of ASC 944-40 *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* have been met. To meet risk transfer requirements, a long-duration reinsurance contract must transfer significant mortality or morbidity risks and subject the reinsurer to a reasonable possibility of a significant loss. Those contracts that do not meet risk transfer requirements are accounted for using deposit accounting. The products covered by the reinsurance treaty with Symetra Life require deposit accounting.

Assets and liabilities assumed under modified coinsurance are presented gross on the balance sheet. The reinsurance payable represents the amount due to the ceding company, Symetra Life, to support the required balance needed in the modco account.

The deposit liability for fixed deferred annuity and FIA contracts assumed is equal to account value of those contracts. Account value represents the amount available in cash to the policyholder, without regard to any surrender fees. This is computed as deposits net of withdrawals made by the policyholder, plus amounts credited based on contract specifications, less contract fees and charges assessed, plus any additional interest. Any accretion (change) in the account value is presented in benefits expense on the statement of income (loss).

The following table provides a reconciliation of the beginning and ending balances for the deposit liability:

	For the Year Ended December 31, 2022
Deposit liability, beginning of period	$ —
Assumed reserves	3,191,608
Incurred interest adjustment	24,400
Deposit liability, end of period	$ 3,216,008

7. Deferred Acquisition Costs (DAC)

The Company defers costs that are directly related to the successful acquisition or renewal of insurance contracts assumed via reinsurance to the extent that such costs are deemed recoverable from future profits. The costs result directly from and are essential to the contract acquisition and would not have been incurred by the Company had the contract acquisition not occurred. Such costs include a ceding allowance assessed by the ceding company, Symetra Life. The Company amortizes DAC over the lives of the assumed policies in proportion to the estimated future gross profits. Estimates of future gross profits are based on assumptions using accepted actuarial models. Periodic testing is performed to determine if DAC is recoverable.

The following table provides a reconciliation of the beginning and ending balance for DAC:

	For the Year Ended December 31, 2022
Unamortized balance at beginning of period	$ —
Deferral of acquisition costs	230,940
Amortization	(4,959)
Balance at end of period	$ 225,981

8. Fair Value of Financial Instruments

The Company determines the fair value of its financial instruments based on the fair value hierarchy, which favors the use of observable inputs over the use of unobservable inputs. The Company has categorized its financial instruments into the three-level hierarchy, which gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The level assigned to a fair value measurement is based on the lowest-level input that is significant to the measurement. The fair value measurements for the Company's financial instruments are categorized as follows:

(All dollar amounts in thousands, unless otherwise stated)

- Level 1 – Unadjusted quoted prices in active markets for identical instruments.
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, model-derived valuations whose inputs are observable, and market corroborated inputs. This category includes financial instruments that are valued using industry-standard pricing methodologies or models. All significant inputs are observable or derived from observable information in the marketplace.
- Level 3 – Fair value estimates whose significant inputs are unobservable. This includes financial instruments for which fair value is estimated based on industry-standard pricing methodologies and internally developed models utilizing significant inputs not based on or corroborated by readily available market information. In limited circumstances, this may also utilize estimates based on non-binding broker quotes.

The following tables present the fair value of the Company's financial instruments classified by the valuation hierarchy described above:

	As of December 31, 2022				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Fixed maturities - AFS:					
Corporate securities	$ 37,150	$ 37,150	$ —	$ 37,150	$ —
Total fixed maturities - AFS	37,150	37,150	—	37,150	—
Embedded derivative - funds withheld	161,000	161,000	—	156,749	4,251
Total assets at fair value	$ 198,150	$ 198,150	$ —	$ 193,899	$ 4,251

Invested Assets

The Company's AFS fixed maturities, are classified as Level 2 measurements. To make this assessment, the Company determines whether the market for a security is active and if significant pricing inputs are observable. The Company predominantly utilizes third-party independent pricing services to assist management in determining the fair value of its fixed maturity securities. As of December 31, 2022, pricing services provided prices for 100% of the Company's fixed maturities.

All corporate securities classified as Level 2 measurements are priced by independent pricing services utilizing evaluated pricing models. Evaluated pricing models apply available information through processes such as benchmark curves, benchmarking of like securities, direct observations, observed comparables, and sector relative value models to prepare valuations. The significant inputs for security evaluations include benchmark yields, reported trades, executable broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities within an issuer's capital structure, benchmark securities of the same credit quality within the same industry, bids, offers, and other reference data, including market research publications.

Embedded Derivative

The reinsurance agreement written on a funds withheld basis contains an embedded derivative, related to the withheld assets supporting the assumed contracts. See note 4 for the detail of the underlying assets. The Company estimates the fair value of the embedded derivative based on the change in the fair value of the specific underlying assets supporting the funds withheld receivable. The fair value is classified as Level 2 or Level 3 based on the valuation methods used for the assets held supporting the reinsurance agreements.

9. Stockholder's Equity

Symetra owns all of the shares of common stock issued by the Company. The Company has authorized and issued 250,000 common shares at a par value of $1 each. During the year, the Company received $175 million by way of additional capital contributions from its Parent.

AOCI consists of unrealized gains (losses) on the Company's AFS securities, which are reported net of deferred taxes. The tax effects are released from AOCI into income tax expense (benefit) when the underlying amounts are reclassified to income, typically when the related instrument is sold, terminated, or otherwise extinguished. There were no amounts reclassified into income as of December 31, 2022.

10. Commitments and Contingencies

Because of the nature of its business, the Company is subject to legal actions filed or threatened in the ordinary course of its business operations. The Company establishes liabilities for litigation and regulatory actions when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. For matters where a loss is believed to be reasonably possible, but not probable, no liability is established. For such matters, the Company may provide an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. The Company reviews relevant information with respect to litigation and regulatory matters on a quarterly basis and updates its established liabilities, disclosures, and estimates of reasonably possible losses or range of loss based on such reviews.

(All dollar amounts in thousands, unless otherwise stated)

Although the Company cannot predict the outcome of any litigation or regulatory action, the Company does not believe that any such matters will have an impact on its financial condition or results of operations that differs materially from the Company's established liabilities. However, given the inherent difficulty in predicting the outcome of such matters, it is possible that an adverse outcome in certain such matters could be material to the Company's financial condition or results of operations for any particular reporting period.

11. Related Party Transactions

The following discussion relates to transactions entered into by the Company with its parent and affiliates. It is the Company's policy to settle amounts due to affiliated companies within 30 days but no less than quarterly in accordance with the agreements. Balances due to its parent and affiliates are recorded in payables to affiliates on the balance sheet.

The Company has entered into a Services and Shared Expenses Agreement with Symetra Life for services necessary to conduct its activities. This agreement specifies that Symetra Life will provide certain general services to the Company which may include telecommunications and electronic data processing services, facilities, finance, accounting, tax, treasury, and auditing services, actuarial services, underwriting services, reinsurance administration and claims handling services, purchasing and sourcing services, risk management and insurance procurement services, legal services, human resources, personnel and payroll services, general management and executive and miscellaneous consulting services, and recordkeeping, and are included in operating expenses on the statement of income (loss). General service expenses are allocated among legal entities using methodologies that management believes to be reasonable to estimate service utilization, including headcount, time studies, or relevant activity levels.

The Company has an Investment Management Agreement (IMA) with Symetra Investment Management Company (SIM), a subsidiary of the Parent. The agreement provides for investment advisory services related to the Company's invested assets.

	For the Year Ended December 31, 2022
Transactions with Parent and affiliates:	
Payments for shared services expenses	$ **1,305**
Payments for investment management services	**11**

12. Income Taxes

The Company intends to be included in the Parent's income tax returns, which are filed in the U.S. federal and various state jurisdictions. In January 2023, the Company filed an IRC Sec. 953(d) election and is awaiting approval from the Internal Revenue Service. When approved, the Company will be treated as a U.S. taxpayer effective as of its date of incorporation. The method of allocation of federal income tax expense among the companies in the consolidated group is subject to a written agreement. The allocation is based upon separate return calculations. Intercompany balances are settled quarterly. The Company is not currently subject to any federal or state income tax examinations.

Income taxes have been determined using the liability method. The provision for income taxes has three components: amounts currently payable or receivable, unrecognized tax benefits and deferred income taxes. The deferred income taxes are calculated as the difference between the book and tax bases of the appropriate assets and liabilities, and are measured using enacted tax rates.

In 2022, the Company's effective tax rate does not materially differ from the U.S. federal statutory income tax rate.

(All dollar amounts in thousands, unless otherwise stated)

Deferred income tax assets and liabilities were measured at a corporate tax rate of 21% as of December 31, 2022, and were as follows:

	As of December 31, 2022
Deferred income tax assets (1)	$ 48,569
Deferred income tax liabilities (2)	(15,254)
Deferred income tax assets (liabilities), net	$ 33,315

(1) Significant temporary differences that gave rise to the deferred income tax assets as of December 31, 2022, primarily included adjustments related to life policy liabilities and net operating losses.
(2) Significant temporary differences that gave rise to the deferred income tax liabilities as of December 31, 2022, primarily included DAC.

As of December 31, 2022, the Company has gross federal NOL carryforwards of $52.5, which expire under current law during 2042.

Deferred tax assets are recognized only to the extent that it is more likely than not that future taxable profits will be available and a valuation allowance is established where deferred tax assets are not expected to be realized. The Company determined that no valuation allowance is required as of December 31, 2022.

The Company includes penalties and interest accrued related to unrecognized tax benefits in the calculation of income tax expense. As of December 31, 2022, the Company has no unrecognized tax benefits and does not expect significant changes within the next year.

13. Statutory Requirements

The Company is licensed by the Bermuda Monetary Authority (BMA) as a Class C insurer and is subject to the Insurance Act of 1978, as amended (Bermuda Insurance Act) and regulations promulgated thereunder. The BMA implemented the Economic Balance Sheet (EBS) framework into the Bermuda Solvency and Capital Requirement (BSCR) which was granted equivalency to the European Union's Directive (2009/138/EC) (Solvency II). Under this framework a Class C insurer must produce three sets of financial statements:

1. **GAAP Financial Statements** - Financial statements prepared in accordance with an internationally recognized comprehensive basis of accounting, and for which the Company has elected to prepare US GAAP financial statements. These financial statements form the basis for the preparation of both the Statutory Financial Statements and the Economic Balance Sheet.

2. **Statutory Financial Statements (SFS)** - Equal to the GAAP financial statements adjusted to eliminate non-admitted assets including goodwill and other similar intangible assets, not considered admissible for solvency purposes and certain assets and liabilities that are generally off-balance sheet under general purpose reporting. These include items such as guarantees and other instruments that do not relate the insurer's own insurance contracts. The SFS is also adjusted based upon directions or permitted practices issued by the BMA.

3. **Economic Balance Sheet (EBS)** - A balance sheet where assets are recorded based on GAAP fair values and insurance reserves are based on technical provisions comprised of the sum of a best estimate liability plus a risk margin. The best estimate liability may be calculated by applying the standard approach or the scenario approach.

Under the Bermuda Insurance Act, insurers are required to maintain minimum statutory capital and surplus to meet the minimum margin of solvency (MMS) and minimum economic statutory capital and surplus (EBS capital and surplus) to meet the Enhanced Capital Requirement (ECR). The MMS is equal to the greater of $500 or 1.5% of total statutory assets, with a floor of 25% of the ECR. The ECR is calculated using the risk based capital model where risk factor charges are applied to the EBS. As of December 31, 2022 the Company met the minimum requirements.

For the SFS, the Company received the following permitted practices from the BMA:

1. The Company is permitted to report the securities and derivatives in the funds withheld portfolios equal to amortized cost of assets held, other than derivatives used to back index product hedging, which will be marked to market each period; and

2. The Company is permitted to remove balance sheet recognition of unrealized gains for assets held directly at the Company; and

(All dollar amounts in thousands, unless otherwise stated)

3. The Company is permitted to remove the recording of a reserve calculated in accordance with Financial Accounting Standard 133 for the bifurcation of fixed indexed annuity forward-starting options and other fair value adjustments, instead carrying the liability at account value plus the market-over-book value of derivatives used to back index crediting strategies. The book value of options used in this calculation will be equal to the original purchase price of the option.

The following table presents GAAP and SFS capital and surplus and net income amounts, as well as the effect of permitted practices to the statutory financial statements:

	For the Year Ended December 31, 2022		
	GAAP	**Effect of permitted practices**	**SFS**
Net income (loss)	(124,761)	135,957	11,196
Capital and surplus	49,921	136,525	186,446

To enable the BMA to better assess the quality of the insurer's capital resources, a Class C insurer is required to disclose the makeup of its capital in accordance with a '3 tiered capital system'. Highest quality capital is classified as Tier 1 Capital, lesser quality capital is classified as either Tier 2 Capital or Tier 3 Capital. The Bermuda Insurance Act requires that Class C insurers have Tier 1 Capital equal to or greater than 50% of the value of its ECR and Tier 3 Capital of not more than 17.65% of the aggregate of its Tier 1 Capital and Tier 2 Capital. As of December 31, 2022, all of the eligible capital used by the Company to meet the MMS and ECR was Tier 1. The Company monitors its capital tiers and any encumbrances on capital when determining capital tiers, including assessing any capital restricted in trusts and funds withheld or modified coinsurance arrangements.

Under the Bermuda Insurance Act, the Company is prohibited from paying a dividend in an amount exceeding 25% of the prior year’s statutory capital and surplus, unless at least two members of the companies’ respective board of directors and its principal representative in Bermuda sign and submit to the BMA an affidavit attesting that a dividend in excess of this amount would not cause the subsidiary to fail to meet its relevant margins. In certain instances, the Company would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event that such an affidavit is submitted to the BMA, and further subject to meeting the MMS and ECR requirements, the Company is permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of statutory capital. Distributions in excess of this amount require the approval of the BMA.