

Wilton Reinsurance Bermuda Limited and Subsidiary

Consolidated Financial Statements and
Supplementary Information as of and for the
Years Ended December 31, 2022 and 2021, and
Independent Auditor's Report

WILTON REINSURANCE BERMUDA LIMITED AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Wilton Reinsurance Bermuda Limited:

Opinion

We have audited the consolidated financial statements of Wilton Reinsurance Bermuda Limited and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

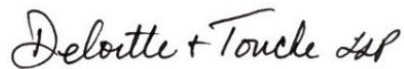
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance 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.

The logo for Deloitte + Touche LLP, featuring the firm's name in a stylized, cursive script.

April 24, 2023

WILTON REINSURANCE BERMUDA LIMITED AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2022 AND 2021 (Expressed in thousands of U.S. dollars, except share amounts)

	2022	2021
Assets		
Investments		
Fixed maturity and equity securities at fair value	\$ 282,055	\$ 116,164
Policy loans	14,375	16,345
Funds withheld at interest		
(includes \$16,419,121 and \$21,918,369 at fair value		
at December 31, 2022 and 2021, respectively)	17,341,033	22,812,680
Other invested assets		
(includes \$134,146 and \$148,387 at fair value		
at December 31, 2022 and 2021, respectively)	134,146	170,829
Total investments	17,771,609	23,116,018
Cash and cash equivalents	78,908	30,260
Accrued investment income	2,194	311
Premiums receivable	16,754	18,816
Other reinsurance receivables	57,414	51,755
Net deferred acquisition costs	28,333	33,714
Value of in-force business acquired	1,060,753	375,506
Net deferred income taxes	869,886	150,711
Other assets	176,202	182,760
Total assets	<u>\$ 20,062,053</u>	<u>\$ 23,959,851</u>
Liabilities and shareholders' equity		
Liabilities:		
Reserves for future policy benefits	\$ 11,628,363	\$ 11,962,035
Interest sensitive contract liabilities	9,492,161	10,090,432
Other reinsurance liabilities	54,240	167,195
Other liabilities	73,915	81,974
Total liabilities	<u>21,248,679</u>	<u>22,301,636</u>
Shareholders' equity:		
Class A-1 common shares		
\$1.00 par value; 31,780 shares authorized, issued and		
outstanding at December 31, 2022 and 2021 respectively	32	32
Class A-2 common shares		
\$1.00 par value; 50,000 shares authorized, 10,594 issued and outstanding		
outstanding at December 31, 2022 and 2021 respectively	11	11
Class B common shares		
\$1.00 par value; 218,220 shares authorized, issued and outstanding		
outstanding at December 31, 2022 and 2021 respectively	218	218
Additional paid-in capital	798,110	798,110
Retained earnings (deficit)	(1,984,997)	859,844
Total shareholders' equity	<u>(1,186,626)</u>	<u>1,658,215</u>
Total liabilities and shareholders' equity	<u>\$ 20,062,053</u>	<u>\$ 23,959,851</u>

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

WILTON REINSURANCE BERMUDA LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (Expressed in thousands of U.S. dollars)

	2022	2021
Revenues		
Net premiums	\$ 142,481	\$ 158,067
Policy fees and charges	112,485	113,548
Inuring third-party reinsurance commissions	992	879
Investment earnings—net	602,498	792,816
Net change in unrealized gains (losses) on investments classified as trading and other	(11,304)	2,035
Change in value of embedded derivatives—net	<u>(4,227,363)</u>	<u>(649,767)</u>
Total revenues	<u>(3,380,211)</u>	<u>417,578</u>
Benefits and expenses		
Claims and policy benefits	437,656	420,200
Interest credited to interest sensitive contract liabilities	233,134	238,098
Acquisition costs and other insurance expenses	(640,509)	(92,863)
Operating expenses	32,351	25,850
Interest expense on debt	<u>478</u>	<u>-</u>
Total benefits and expenses	<u>63,110</u>	<u>591,285</u>
Net income (loss) and comprehensive income (loss) before income taxes	(3,443,321)	(173,707)
Income tax expense (benefit)	<u>(723,480)</u>	<u>(36,759)</u>
Net income (loss) and comprehensive income (loss)	<u><u>\$ (2,719,841)</u></u>	<u><u>\$ (136,948)</u></u>

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

WILTON REINSURANCE BERMUDA LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (Expressed in thousands of U.S. dollars)

	2022	2021
Common Shares (Class A-1)		
Balance at beginning and end of year	\$ 32	\$ 32
Common Shares (Class A-2)		
Balance at beginning and end of year	11	11
Common Shares (Class B)		
Balance at beginning and end of year	218	218
Additional Paid-In Capital		
Balance at beginning and end of year	798,110	798,110
Retained (Deficit) Earnings		
Balance at beginning of year	859,844	1,316,792
Dividends on common stock	(125,000)	(320,000)
Net income (loss) and comprehensive income (loss)	<u>(2,719,841)</u>	<u>(136,948)</u>
Balance at end of year	<u>(1,984,997)</u>	<u>859,844</u>
Total shareholders' equity	<u>\$ (1,186,626)</u>	<u>\$ 1,658,215</u>

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

WILTON REINSURANCE BERMUDA LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (Expressed in thousands of US dollars)

	2022	2021
Cash flows from operating activities		
Net income (loss) and comprehensive income (loss)	\$ (2,719,841)	\$ (136,948)
Adjustments to reconcile net income (loss) and comprehensive income (loss) to net cash from (used in) operating activities:		
Amortization of net investment premium, discounts and other	17	258
Investment related realized (gains) losses—net	3,876	(2,985)
Investment related unrealized (gains) losses—net	(9,698)	(22,916)
Earnings of equity method investments	(2,004)	(11,757)
Mark-to-market on embedded derivative	4,227,363	606,769
Amortization and other adjustments to deferred acquisition costs	5,381	7,128
Amortization and other adjustments to value of business acquired	9,945	17,608
Interest credited to interest sensitive contracts	233,134	238,098
Other reserve changes of interest sensitive contract liabilities	(538,931)	265,056
Change in assets and liabilities:		
Fixed maturity and equity securities	909	(5,565)
Accrued investment income	(1,883)	(43)
Deferred income taxes	(719,175)	(65,167)
Premiums receivable	2,062	2,323
Other reinsurance receivables	(5,659)	100,610
Funds withheld at interest	1,060,045	(180,416)
Deferred acquisition costs	-	25
Value of in-force business acquired	(695,192)	(154,446)
Other assets	6,558	17,611
Reserves for future policy benefits	(333,672)	(372,242)
Other reinsurance liabilities	(112,955)	116,248
Other liabilities	(3,816)	(15,120)
Net cash flows from (used in) operating activities	<u>406,464</u>	<u>404,129</u>

(Continued)

WILTON REINSURANCE BERMUDA LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (Expressed in thousands of US dollars)

	2022	2021
Cash flows from investing activities		
Sales, maturities and repayments of:		
Limited partnership interests	\$ 24,653	\$ 1,272
Purchases of:		
Limited partnership interests	(207)	-
Other invested assets	-	(1,273)
Premium paid on life settlement contracts	(21,869)	(24,593)
Net proceeds from maturity of life settlement contracts	59,353	79,332
Change in policy loans	1,970	635
Change in short-term investments	-	800
Net cash flows from (used in) investing activities	<u>63,900</u>	<u>56,173</u>
Cash flows from financing activities		
Dividends on common stock	(125,000)	(150,212)
Paydown of secured borrowing	(4,241)	(5,976)
Proceeds from credit facility	115,000	-
Paydown of credit facility	(115,000)	-
Deposits into interest sensitive contracts	15,409	10,099
Redemption and benefit payments on interest sensitive contracts	(307,884)	(379,048)
Net cash flows from (used in) financing activities	<u>(421,716)</u>	<u>(525,137)</u>
Increase (decrease) in cash and cash equivalents	48,648	(64,835)
Cash and cash equivalents—Beginning of the year	<u>30,260</u>	<u>95,095</u>
Cash and cash equivalents—End of the year	<u>\$ 78,908</u>	<u>\$ 30,260</u>
Supplemental disclosure of cash flow information:		
Cash received (paid) during the period for—income taxes	<u>\$ (10,100)</u>	<u>\$ (43,000)</u>
Cash flow information for non-cash transactions:		
Securities transferred out for dividends on common stock	<u>\$ -</u>	<u>\$ (169,788)</u>

The accompanying notes are an integral part of these

WILTON REINSURANCE BERMUDA LIMITED AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Expressed in thousands of U.S. dollars, except share amounts)

1. ORGANIZATION

Wilton Reinsurance Bermuda Limited (WREB or the Company) is a subsidiary of Wilton Re Ltd. (96%) and Wilton Re U.S. Holdings, Inc. (4%) and was incorporated under the laws of Bermuda as a long term insurer on December 17, 2004. Wilton Re Ltd. (WRL) is the ultimate parent corporation in the Company's holding company structure.

Mills Creek LLC (Mills Creek), a wholly owned subsidiary of WREB, was formed on January 7, 2019, as a Delaware limited liability company authorized to issue 100 Common Units. On January 25, 2019, WREB contributed all of its right, title and interest in its direct investment life settlement contracts valued at \$240,376 in exchange for its 100 Common Units. On January 29, 2019, WREB sold 25 Common Units to SPC Opps Fund Holdings II, L.P., a Delaware limited partnership for an amount equal to 25% of WREB's investment in Mills Creek. WREB recorded the proceeds from the sale as a secured borrowing, included within other liabilities of the consolidated balance sheets. The balance of the secured borrowing is \$35,368 and \$39,610 at December 31, 2022 and December 31, 2021, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated and Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany accounts balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include those used in determining deferred acquisition costs, value of in-force business acquired, premiums receivable, reserves for future policy benefits, other policy claims and benefits, and the valuation of investments. While the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, the actual results could be materially different from the amounts reported in the consolidated financial statements.

Investments and Investment Earnings

Fixed Maturity and Equity Securities

Fixed maturity and equity securities include publicly-traded fixed maturity securities and preferred stocks which are classified as trading and are recorded at fair value with the change in fair value reported as net unrealized gains (losses) on investments classified as trading and other in the consolidated statements of

comprehensive income (loss). The fair value of publicly-traded securities is based on quoted market prices or obtained from independent third-party dealers in the absence of quoted market prices. The fair value of private placements is obtained from third-party dealers or is modeled.

Investment transactions are recorded on a trade date basis. The Company's investment earnings are recognized when earned and consist primarily of interest and the accretion of discount or amortization of premium on fixed maturity securities. Investment earnings are presented net of investment management, investment accounting and custody expenses on the consolidated statements of comprehensive income (loss). Gains and losses realized on the sale of investments are determined on the first in—first out method.

Policy Loans

Policy loans are reported at the unpaid principal balance. Interest income on such loans is recorded as earned using the contractually agreed upon interest rates.

Funds Withheld at Interest

Funds withheld at interest represent amounts contractually withheld by ceding companies in accordance with reinsurance agreements. For agreements written on a modified coinsurance basis and agreements written on a coinsurance funds withheld basis, assets equal to the statutory reserves, net of reinsurance, are withheld and legally owned by the ceding company. Investment income on funds withheld at interest includes the interest income earned on these segregated assets as defined by the treaty terms.

The Company accounts for the embedded derivatives in modified coinsurance and funds withheld contracts as total return swaps. Accordingly, the value of the derivative is equal to the unrealized gain or loss on the assets underlying the funds withheld portfolio associated with each agreement. The Company's funds withheld at interest are recorded at fair value with the changes in the fair value of the embedded derivative reflected in the change in value of derivatives and embedded derivatives, net, in the consolidated statements of comprehensive income (loss). At December 31 the fair value of these embedded derivatives, and the change in fair value for the year then ended, included:

	2022	2021
Fair value	\$ (2,259,383)	\$ 1,967,980
Change in fair value	(4,227,363)	(606,769)

Short-Term Investments

Short-term investments represent investments with maturities at acquisition of greater than three months but less than twelve months and are carried at amortized cost.

Other Invested Assets

Other invested assets include investments in limited partnerships and limited liability corporations (limited partnerships), surplus debentures and life settlement contracts.

Limited Partnerships

Limited partnerships are accounted for using the equity method when the Company has more than a minor ownership interest, more than a minor influence over the investee's operations or if the limited partnership maintains separate capital accounts for their investors. The most recently available financial

information provided by the general partner or manager of each of the investments is used, which is one to three months prior to the end of our reporting period. Changes in the value of limited partnerships are included in net unrealized gains (losses) on investments classified as trading and other in the consolidated statements of revenues and expenses. Income distributions from limited partnerships are included in investment earnings—net in the consolidated statements of comprehensive income (loss).

Surplus Debentures

Surplus debentures are similar to corporate securities but are subordinated obligations of insurance companies and may be subject to restrictions by the insurance commissioners and are carried at fair value.

Life Settlement Contracts—Direct Investment

The Company acquired the ownership and beneficiary rights of underlying life insurance policies through the acquisition of life settlement contracts from the owners of the life insurance contracts. The Company accounts for its investments in life settlement contracts using the fair value method. Under the fair value method, each life settlement contract is carried at its fair value at the end of each reporting period within other invested assets on the consolidated balance sheets. The change in fair value, life insurance proceeds received and periodic maintenance costs necessary to keep the underlying policy in force, such as premiums, are recorded in the investment earnings—net in the consolidated statements of comprehensive income (loss).

Cash and Cash Equivalents

The Company considers all investments purchased with a maturity at acquisition of three months or less to be cash equivalents.

Premiums Receivable

Premium receivables are recognized when due and in accordance with information received from the ceding company. Under the legal right of offset provision in the reinsurance treaties, the Company can withhold payments for allowances and claims for unpaid premiums. Based on a review of these factors and historical experience, the Company did not believe a provision for doubtful accounts was necessary as of December 31, 2022 or 2021. Included in the premiums receivable balance at December 31, 2022 and 2021 is \$16,080 and \$18,016, respectively from affiliates.

Other Reinsurance Receivables and Liabilities

Other reinsurance receivables and liabilities primarily include reinsurance settlements not yet paid, but which generally settle quarterly. As of December 31, 2022, and 2021, other reinsurance receivables include reinsurance settlements due of \$51,760 and \$51,767, respectively, and other reinsurance liabilities include payables of \$51,684 and \$164,183, respectively. All of the above amounts are due to or payable from affiliates.

Deferred Acquisition Costs (DAC)

The costs that are directly related to the successful acquisition of new and renewal life insurance and reinsurance business have been deferred to the extent that such costs are deemed recoverable from future premiums or gross profits.

The Company performs periodic tests to determine that DAC remains recoverable, and if financial performance deteriorates to the point where a premium deficiency exists, a charge to current operations would be recorded. DAC was fully recoverable during 2022 and 2021. Deferred costs related to traditional life insurance contracts, all of which relate to long duration contracts, are amortized generally over the premium-paying period, in proportion to the ratio of individual period premium revenues to total anticipated premium revenues over the amortization period. Such anticipated premium revenues are estimated using the same assumptions used for computing liabilities for future policy benefits. DAC related to interest sensitive insurance products, such as universal life and annuities, are recognized as expense over the term of the policies in proportion to estimated gross profits (EGPs), arising principally from surrender charges, investment margins including unrealized gains (losses) on investments classified as trading and mortality and expense margins, over the amortization period. EGPs are updated periodically with actual gross profits, and the assumptions underlying future EGPs are evaluated for continued reasonableness. Adjustments to EGPs require that amortization rates be revised retroactively to the date of the contract issuance ("unlocking").

Income Taxes

The income tax provision is calculated under the asset and liability method on those operations that are subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the carrying amounts of assets and liabilities recorded in the financial statements and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax rates would be recognized in the consolidated statements of comprehensive income (loss) in the period in which the tax rate change is enacted. A valuation allowance for a portion or all of deferred tax assets is recorded as a reduction to deferred tax assets when it is more likely than not that such portion or all of such deferred tax assets will not be realized.

The Company assesses all significant tax positions to determine if a liability for an uncertain tax position is necessary and, if so, the impact on the current or deferred income tax balances. Also, if indicated, the Company recognizes interest or penalties related to income taxes as a component of the income tax provision.

Reserves for Future Policy Benefits

The Company's liabilities for reinsurance of traditional life insurance, accident and health (including long-term care) and payout annuities (including structured settlements) with life contingencies are recognized as reserves for future policy benefits. The Company monitors actual experience and revises assumptions and related reserve estimates as permitted. The reserve is estimated using the net level premium method utilizing assumptions for mortality, morbidity, persistency, interest, and expenses established when the contract is underwritten. These assumptions are based on anticipated experience with a margin for adverse deviation.

If the reserves for future policy benefits plus the present value of expected future gross premiums are insufficient to provide for expected future benefits and expense, deferred policy acquisition costs are expensed or a premium deficiency reserve is established by a charge to claims and policy benefits. Benefit liabilities for traditional life contingent payout annuities and structured settlements are recorded at the present value of expected future benefit payments. Where required, the Company also establishes an unearned profit reserve and amortizes it over expected benefit payments. Additionally, the Company performs a premium deficiency test of non-interest sensitive contract reserves to reflect the effect of unrealized gains or losses on fixed maturity securities, with related changes recognized within reserves for future policy benefits in the accompanying consolidated statements of comprehensive income (loss).

While the treatment of investments classified as “held to maturity” and “available for sale” in the determination of premium deficiency testing is explicitly addressed in existing U.S. GAAP guidance, the treatment of changes in market rates and related temporary unrealized gains and losses on securities classified as “trading” is not explicitly addressed. Accordingly, the Company has adopted an accounting policy that essentially assumes all the securities classified as trading had been sold at the measurement date at their stated aggregate fair value and the proceeds backing the liabilities are reinvested at current market yields. This treatment can result in a premium deficiency reserve that would be considered locked in which in turn the Company will need to amortize over the remaining life of the underlying business.

At December 31, 2020, the Company recorded a premium deficiency reserve. Due to the low interest rate environment at that time, the Company recognized temporary unrealized gains on its investments classified as trading of \$2,792,143 supporting business subject to the premium deficiency assessment, which resulted in a locked in premium deficiency reserve of \$755,600 that is amortized over the life of the business. During 2021 as interest rates increased, the Company recognized a reduction in the temporary unrealized gain or unrealized loss of \$654,197 in the consolidated statements of comprehensive income. Had the Company determined its premium deficiency reserves in accordance with the U.S. GAAP guidance applicable to securities classified as “held to maturity”, it would not have recorded premium deficiency reserves as of December 31, 2022, 2021 or 2020. Had the Company determined its premium deficiency reserves in accordance with the US GAAP guidance applicable to securities classified as “available for sale”, it would have recorded premium deficiency reserves of \$0, \$410,703, and \$755,600 as of December 31, 2022, 2021 and 2020, respectively.

At December 31, 2022, the unamortized premium deficiency reserve recognized by the Company was \$714,042, with a related deferred tax asset of \$149,949. At December 31, 2021, the unamortized premium deficiency reserve recognized by the Company was \$735,199, with a related deferred tax asset of \$154,392. The amortization of the premium deficiency reserve during 2022 and 2021 was \$21,157 and \$20,401, respectively. No additional premium deficiency reserves were recorded in 2022 or 2021.

Unrealized appreciation on investments in a low interest rate environment may cause additional premium deficiency reserves to be recorded in the future through a charge directly to net income.

The average discount rates used to compute the Company’s reserves for future policy benefits are as follows:

	2022	2021
Traditional life insurance	4.20 %	4.20 %
Payout annuities with life contingencies	3.73	3.73
Accident & Health including long-term care	3.50	3.50

Interest Sensitive Contract Liabilities

Liabilities for interest sensitive insurance products such as universal life and deferred annuities are established based on account values before applicable surrender charges. Certain universal life products contain features that link interest credited to an equity index. These features create an embedded derivative that is not clearly and closely related to the host insurance contract. The embedded derivative is carried at fair value with changes in the fair value reported in the accompanying consolidated statements of comprehensive income (loss). The Company had no such embedded derivatives in 2022 or 2021.

In situations where mortality profits are followed by mortality losses (PFBL), a liability is established, in addition to the account value, to recognize the portion of policy assessments that relate to benefits to be provided in the future. The calculation of these liabilities is based on management's best estimates and assumptions regarding expected mortality, lapse, persistency, expenses and investment experience, which are reviewed and unlocked at least annually if necessary. Additional liabilities are established for universal life products related to unearned policy charges. As of December 31, 2022 and 2021, the Company has passed PFBL testing with no projected losses for all years, and therefore, has not recorded an additional liability related to benefits provided in the future.

Claim Reserves

For both non-interest sensitive and interest sensitive life insurance, liabilities are established for estimated death benefits that have been incurred, but not yet reported. These liabilities are based on periodic analyses of the actual reporting lag between when a claim occurs and when it is reported to the Company, including a provision for adverse deviation.

Long-term care claim reserves are established for continuing benefit payments are calculated using assumptions of anticipated mortality and claim continuance rates that are based on established industry tables adjusted for the ceding company's historical experience. Long-term care claims reserves are discounted at 3.50% and 3.50% for 2022 and 2021, respectively.

Recognition of Revenue and Expenses

Assumed reinsurance and policy premiums related to traditional life products and long-duration accident and health contracts are recognized as revenue when due from the ceding companies and policyholders and are reported net of the cost of reinsurance ceded. Benefits and expenses are reported net of amounts related to reinsurance ceded and are associated with earned premiums so that profits are recognized over the life of the related contracts.

For each of its reinsurance contracts, the Company determines whether the contract provides indemnification against loss or liability relating to insurance risk. The Company must review all contractual features, particularly those that may limit the amount of insurance risk to which the Company is subject or features that delay the timely reimbursement of claims. If the Company determines that a contract does not expose it to a reasonable possibility of a significant loss from insurance risk, the Company records the contract under the deposit method of accounting with the net amount payable/receivable reflected in other reinsurance assets or liabilities on the consolidated balance sheets. Fees earned on these contracts are reflected as policy fees and charges, as opposed to premiums, on the consolidated statements of comprehensive income (loss).

For annuity and interest-sensitive life contracts, premiums collected are not reported as revenues, but as deposits to interest sensitive contract liabilities. The Company recognizes revenues for these products over time in the form of investment income, policy charges for the cost of insurance, policy administration fees, and surrender fees that have been assessed against policy account balances during the period. Policy benefits and claims that are charged to expense include claims incurred in the period in excess of related policy account balances and interest credited to policy account balances. The weighted average interest-crediting rate for interest-sensitive products was 3.66% and 3.24% during 2022 and 2021, respectively.

Closed Block Reinsurance

Acquisitions by the Company of blocks of business in run off (i.e., where only existing policies will be renewed and new policies will not be sold), as either a reinsurance transaction or a stock purchase, are accounted for as reinsurance transactions. Results of operations only include the revenues and expenses from the effective date of acquisition of these blocks of business. The initial transfer of assets and liabilities is recorded on the consolidated balance sheets at the date of acquisition at fair value, except for the reserves for future policy benefits and value of inforce business acquired (VOBA), which are recorded at management's best estimate. Future policy benefit reserves are established based on the present value of benefits and maintenance expenses minus the present value of valuation (or net) premiums.

VOBA represents the present value of future profits from the acquired contracts using the discount rate implicit in the pricing of such transactions. In establishing the VOBA, the Company considers costs which vary with and are primarily related to the acquisition to be part of the purchase price. Such costs include initial ceding allowances, advisory and legal fees, investment banking fees, and contractually obligated involuntary severance. Other costs incurred that are not contractually required, such as transition and conversion costs, financing costs, and severance are expensed as period costs. The Company amortizes VOBA in proportion to premiums for traditional life products and in proportion to EGPs for interest sensitive life and annuity contracts. The EGP's and related amortization of VOBA for interest sensitive life and annuity products are updated (unlocked) periodically to reflect revised assumptions for lapses, mortality and investment earnings including unrealized gains (losses) on investments classified as trading. The Company performs periodic tests to determine that VOBA associated with both traditional life products and interest sensitive life and annuity products remains recoverable, and when financial performance deteriorates to the point where VOBA is not recoverable, a cumulative charge to current operations would be recorded.

The net liability recorded (reserves for future policy benefits, net of DAC and VOBA) represents management's best estimate of future cash flows, with provisions for adverse deviation as appropriate. Such estimates are subject to refinement within one year of acquisition.

New Accounting Pronouncements

Changes to the accounting principles are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB Accounting Standards Codification. Accounting standard updates not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's consolidated financial statements.

ASUs Adopted During the Year Ended December 31, 2022

ASU 2019-01—Leases (Topic 842): Codification Improvements—In January 2019, the FASB issued an accounting standard update based on the principle that entities should recognize assets and liabilities

arising from leases, that does not significantly change the lessees' recognition, measurement and presentation of expenses and cash flows from the previous accounting standard. Leases are classified as finance or operating. The new standard's primary change is the requirement for entities to recognize a lease liability for payments and a right of use asset representing the right to use the leased asset during the term of operating lease arrangements. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of twelve months or less. Lessors' accounting is largely unchanged from the previous accounting standard. This standard was effective for the Company beginning January 1, 2022. The Company completed the adoption of this new standard in 2022 and the impact to its consolidated financial statements was immaterial.

ASU 2019-12—Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes—In December 2019, the FASB amended the guidance on simplifying the accounting for income taxes. The amendment eliminates the need for an organization to analyze whether the following apply in a given period (1) exception to the incremental approach for intraperiod tax allocation (2) exceptions to accounting for basis differences when there are ownership changes in foreign investments and (3) exceptions in interim period income tax accounting for year-to-date losses that exceed anticipated losses. The accounting standard update is also designed to improve financial statement preparers' application of income tax-related guidance and simplify GAAP for (1) franchise taxes that are partially based on income, (2) transactions with a government that result in a step-up in the tax basis of goodwill, (3) separate financial statements of legal entities that are not subject to tax, and (4) enacted changes in tax laws in interim periods. The guidance is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption of the amendments is permitted. This standard was effective for the Company beginning January 1, 2022. The Company completed the adoption of this new standard in 2022 and the impact on its consolidated financial statements was immaterial.

ASU 2020-01—Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the Emerging Issues Task Force)—In January 2020, the FASB issued an accounting standard update which clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments—Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The guidance is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. This standard was effective for the Company beginning January 1, 2022. The Company completed the adoption of this new standard in 2022 and the impact on its consolidated financial statements was immaterial.

ASUs Issued But Not Adopted as of December 31, 2022

ASU 2016-13—Financial Instruments—Credit Losses (Topic 326)—In June 2016, the FASB issued an accounting standard update which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, the update eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP; however, the update will require that credit losses to be presented as an allowance rather than as a write-down. The guidance is effective for fiscal years

beginning after December 15, 2022, with early adoption permitted. The Company is currently evaluating the impact of this amendment on its consolidated financial statements and the impact is expected to be immaterial.

ASU 2018-12—Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts—In August 2018, the FASB issued an accounting standard update with the objective of making targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The standard prescribes significant and comprehensive changes to recognition, measurement, presentation and disclosure as summarized below:

- Requires the review and if necessary, update of future policy benefit assumptions at least annually for traditional and limited pay long-duration contracts, with the recognition and separate presentation of any resulting re-measurement gain or loss (except for discount rate changes as noted below) in the income statement.
- Requires the discount rate assumption to be updated at the end of each reporting period using an upper medium grade (low-credit risk) fixed income instrument yield that maximizes the use of observable market inputs and recognizes the impact of changes to discount rates in other comprehensive income.
- Simplifies the amortization of DAC and DAC-like balances to a constant level basis over the expected term of the related contracts with adjustments for unexpected terminations, but no longer requires an impairment test for these balances.
- Requires the measurement of all market risk benefits associated with deposit (or account balance) contracts at fair value through the income statement with the exception of instrument-specific credit risk changes, which will be recognized in other comprehensive income.
- Increased disclosures of disaggregated roll-forwards of policy benefits, account balances, market risk benefits, separate account liabilities and information about significant inputs, judgments and methods used in measurement and changes thereto and impact of those changes.

In November 2020, the FASB granted a one-year date delay for the adoption of ASU 2018-12. The Company plans to adopt ASU 2018-12 on its effective date of January 1, 2025.

Company continues to assess the impact of the standard on its reported consolidated financial statements and required disclosures. The adoption of this standard is expected to have a significant impact on the consolidated financial statements and required disclosures, as well as changes to systems, processes and controls. The Company has created a governance framework and is managing a detailed implementation plan to support timely application of the guidance. The Company is currently developing and will continue to refine key accounting policy decisions, technology solutions and internal controls until the implementation is complete.

3. INVESTMENTS

Fixed Maturity and Equity Securities

The amortized cost, fair value and related gross unrealized gain and loss of fixed maturity and preferred stock investments, classified as trading, as of December 31 are as follows:

December 31, 2022	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Fixed maturities:				
U.S. government and agencies	\$ 37,668	\$ 102	\$ (1,168)	\$ 36,602
State and political subdivisions	63,261	620	(2,217)	61,664
Corporate securities	144,921	436	(6,585)	138,772
Residential mortgage-backed securities	7,850	27	(729)	7,148
Commercial mortgage-backed securities	8,166	-	(204)	7,962
Asset-backed securities	24,643	48	(1,769)	22,922
Collateralized debt obligations	<u>5,307</u>	<u>1</u>	<u>(102)</u>	<u>5,206</u>
Total fixed maturities	291,816	1,234	(12,774)	280,276
Preferred stock	<u>1,982</u>	<u>8</u>	<u>(211)</u>	<u>1,779</u>
Total fixed maturity and equity securities	<u>\$ 293,798</u>	<u>\$ 1,242</u>	<u>\$ (12,985)</u>	<u>\$ 282,055</u>
December 31, 2021	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Fixed maturities:				
U.S. government and agencies	\$ 28,352	\$ 533	\$ (39)	\$ 28,846
State and political subdivisions	10,926	211	(46)	11,091
Foreign sovereign	250	-	-	250
Corporate securities	41,007	1,849	(404)	42,452
Residential mortgage-backed securities	2,755	206	(1)	2,960
Commercial mortgage-backed securities	4,297	20	(24)	4,293
Asset-backed securities	18,035	48	(1,152)	16,931
Collateralized debt obligations	<u>7,736</u>	<u>56</u>	<u>(22)</u>	<u>7,770</u>
Total fixed maturities	113,358	2,923	(1,688)	114,593
Preferred stock	<u>1,500</u>	<u>71</u>	<u>-</u>	<u>1,571</u>
Total fixed maturity and equity securities	<u>\$ 114,858</u>	<u>\$ 2,994</u>	<u>\$ (1,688)</u>	<u>\$ 116,164</u>

The unrealized loss and fair values by investment category and by the duration the investments were in a continuous unrealized loss position at December 31 are as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
At December 31, 2022						
Fixed maturities:						
U.S. government and agencies	\$ 16,509	\$ (1,073)	\$ 6,254	\$ (95)	\$ 22,763	\$ (1,168)
State and political subdivisions	26,888	(1,167)	4,576	(1,050)	31,464	(2,217)
Corporate securities	48,707	(4,120)	6,401	(2,465)	55,108	(6,585)
Residential mortgage-backed securities	4,211	(652)	369	(77)	4,580	(729)
Commercial mortgage-backed securities	7,680	(184)	282	(20)	7,962	(204)
Asset-backed securities	7,174	(434)	5,415	(1,335)	12,589	(1,769)
Collateralized debt obligations	3,264	(87)	236	(15)	3,500	(102)
Total fixed maturities	114,433	(7,717)	23,533	(5,057)	137,966	(12,774)
Preferred stock	1,021	(211)	-	-	1,021	(211)
Total fixed maturity and equity securities	<u>\$ 115,454</u>	<u>\$ (7,928)</u>	<u>\$ 23,533</u>	<u>\$ (5,057)</u>	<u>\$ 138,987</u>	<u>\$ (12,985)</u>
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
At December 31, 2021						
Fixed maturities:						
U.S. government and agencies	\$ 28,846	\$ (39)	\$ -	\$ -	\$ 28,846	\$ (39)
State and political subdivisions	11,091	(46)	-	-	11,091	(46)
Foreign sovereign	250	-	-	-	250	-
Corporate securities	40,958	(263)	1,493	(141)	42,451	(404)
Residential mortgage-backed securities	2,960	(1)	-	-	2,960	(1)
Commercial mortgage-backed securities	4,293	(24)	-	-	4,293	(24)
Asset-backed securities	12,332	(223)	4,599	(929)	16,931	(1,152)
Collateralized debt obligations	7,770	(22)	-	-	7,770	(22)
Total fixed maturities	108,500	(618)	6,092	(1,070)	114,592	(1,688)
Preferred stock	1,571	-	-	-	1,571	-
Total fixed maturity and equity securities	<u>\$ 110,071</u>	<u>\$ (618)</u>	<u>\$ 6,092</u>	<u>\$ (1,070)</u>	<u>\$ 116,163</u>	<u>\$ (1,688)</u>

At December 31, 2022, eighty fixed-maturity investments with a total unrealized loss of \$5,057 had been in an unrealized loss position for 12 months or more. Of those securities in an unrealized loss position for 12 months or more, thirty securities had fair values below 70% of book value with a total unrealized loss of \$1,359.

At December 31, 2021, twelve fixed-maturity investments with a total unrealized loss of \$1,070 had been in an unrealized loss position for 12 months or more. Of those securities in an unrealized loss position for 12 months or more, two securities had fair values below 70% of book value with a total unrealized loss of \$7.

Contractual maturities of the Company's fixed maturity securities as of December 31, 2022, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Amortized Cost	Fair Value
One year or less	\$ 6,220	\$ 6,199
One through five years	21,451	20,697
After five through ten years	23,516	21,483
After ten through twenty years	55,354	52,808
After twenty years	139,309	135,851
Residential mortgage-backed securities	7,850	7,148
Commercial mortgage-backed securities	8,166	7,962
Asset-backed securities	24,643	22,922
Collateralized debt obligations	<u>5,307</u>	<u>5,206</u>
Total fixed maturity securities	<u>\$ 291,816</u>	<u>\$ 280,276</u>

Credit ratings of the Company's fixed maturity securities as of December 31 are shown below. Ratings are assigned by Standard & Poor's Corporation, Moody's Investors Service or Fitch Ratings. The ratings assigned may not be accurate predictors of credit losses.

	2022		2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	\$ 60,368	\$ 58,225	\$ 38,074	\$ 38,626
AA	48,104	47,285	7,922	8,347
A	136,923	133,209	26,086	26,640
BBB	43,039	38,476	38,432	38,516
BB	3,246	3,003	2,291	1,981
B	99	49	248	258
CCC or lower and unrated	<u>37</u>	<u>29</u>	<u>305</u>	<u>225</u>
Total fixed maturities	<u>\$ 291,816</u>	<u>\$ 280,276</u>	<u>\$ 113,358</u>	<u>\$ 114,593</u>

The Company's largest five exposures by issuer as of December 31, 2022, were Guggenheim Partners Opportunistic Investment Grade Securities Fund LLC, Walmart Inc., Morgan Stanley, Johnson & Johnson, and Glam Milhsg Fee LLC, each of which comprised less than 0.6%, and in aggregate comprise 2.38%, of total investments.

The Company's largest five exposures by issuer as of December 31, 2021, were The Walt Disney Company, Walmart Inc., 7 Third Avenue Leasehold LLC, Johnson & Johnson, and Guggenheim Partners, each of which comprised less than 0.6 %, and in aggregate comprise 2.49%, of total investments.

Investment Earnings—Net

Major sources and related amounts of investment earnings—net are as follows:

	2022	2021
Fixed maturity and equity securities	\$ 3,261	\$ 5,557
Policy loans	1,050	1,174
Funds withheld at interest	694,957	641,868
Short-term investments and cash and cash equivalents	451	20
Life settlements contracts	16,297	36,096
Other invested assets	<u>17</u>	<u>(33)</u>
Investment income	716,033	684,682
Investment expenses	(3,165)	(6,488)
Interest on secured borrowing	<u>(3,442)</u>	<u>(7,541)</u>
Investment income—net	709,426	670,653
Realized gains on investments	586	9,168
Realized losses on investments	(4,462)	(6,183)
Net realized gains (losses) on funds withheld at interest	<u>(103,052)</u>	<u>119,178</u>
Investment earnings—net	<u>\$ 602,498</u>	<u>\$ 792,816</u>

Life Settlement Contracts—Direct Investment

The Company uses an actuarial model to estimate the aggregate face amount of life insurance that are expected to settle in each future year and the corresponding fair value. This model projects the likelihood of the insured's death for each inforce policy based upon the estimated mortality rates, which may vary due to the relatively small size of the portfolio of life settlement contracts. The number of life settlement contracts presented in the following table is based upon the average face amount of inforce policies estimated to settle in each future year:

	Number of Contracts	Face Amount of Policies	Fair Value
2023	1	\$ 5,000	\$ 3,837
2024	9	32,750	22,457
2025	28	82,700	44,295
2026	23	63,601	28,205
2027	22	67,853	22,190
Thereafter	<u>29</u>	<u>64,292</u>	<u>12,854</u>
Total	<u>112</u>	<u>\$ 316,196</u>	<u>\$ 133,838</u>

Policy Loans

Policy loans comprised approximately 0.1% and 0.1% of the Company's investments as of December 31, 2022 and 2021, respectively. These policy loans present minimal credit risk because the amount of the loan cannot exceed the obligation due the ceding company or the policyholder upon the death of the

insured or surrender of the underlying policy. The provisions of the underlying policies determine the policy loan interest rates. Because policy loans represent premature distributions of policy liabilities, they have the effect of reducing future disintermediation risk. In addition, the Company earns a spread between the interest rate earned on policy loans and the interest rate credited to corresponding liabilities.

4. FUNDS WITHHELD AT INTEREST

Funds withheld at interest comprised approximately 97.6% and 98.7% of the Company's total investments as of December 31, 2022 and 2021, respectively. The risk of loss to the Company due to the insolvency of a ceding company is mitigated by the Company's contractual right to offset amounts it owes the ceding company for claims or allowances with amounts owed to the Company from the ceding company. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance on the funds withheld assets in a fashion similar to its invested assets.

The funds withheld at interest is comprised of the following:

Affiliated Ceding Company	2022	2021
Segregated portfolio of assets—general account	\$ 12,554,779	\$ 17,382,028
Segregated portfolio of assets—separate account	3,430,213	3,974,912
Non-segregated portfolio of assets	<u>911,224</u>	<u>604,424</u>
Funds withheld at interest, at fair value—affiliated	<u>16,896,216</u>	<u>21,961,364</u>
Unaffiliated Ceding Company		
Segregated portfolio of assets—general account	979,893	839,706
Non-segregated portfolio of assets	<u>(535,076)</u>	<u>11,610</u>
Funds withheld at interest, at fair value—unaffiliated	<u>444,817</u>	<u>851,316</u>
Total funds withheld at interest, at fair value	<u>\$ 17,341,033</u>	<u>\$ 22,812,680</u>

The disclosures that follow are for the segregated portfolio—general account only, both affiliated and unaffiliated, and exclude other invested assets, commercial mortgage loans, short term investments and cash of \$2,016,317 and \$2,254,538 as of December 31, 2022 and 2021, respectively. The segregated portfolio—separate account is supported by assets with specific underlying investment objectives and are in accounts legally segregated from the ceding company. The non-segregated portfolio is supported by a proportionate share of the assets held by the ceding company.

The amortized cost, fair value and related gross unrealized gain and loss of the segregated portfolio of assets—general account supporting the funds withheld at interest are as follows:

At December 31, 2022	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Fixed maturities:				
U.S. government and agencies	\$ 2,126,840	\$ -	\$ (597,635)	\$ 1,529,205
State and political subdivisions	712,223	7,931	(75,764)	644,390
Foreign sovereign	19,119	-	(2,739)	16,380
Corporate securities	8,467,480	19,880	(1,065,081)	7,422,279
Residential mortgage-backed securities	318,830	310	(38,458)	280,682
Commercial mortgage-backed securities	318,794	17	(40,510)	278,301
Asset-backed securities	661,858	816	(78,445)	584,229
Collateralized debt obligations	<u>660,211</u>	<u>1</u>	<u>(76,012)</u>	<u>584,200</u>
Total fixed maturities	13,285,355	28,955	(1,974,644)	11,339,666
Preferred stock	221,243	799	(43,369)	178,673
Common stock	<u>-</u>	<u>16</u>	<u>-</u>	<u>16</u>
Total fixed maturity and equity securities	<u>\$ 13,506,598</u>	<u>\$ 29,770</u>	<u>\$ (2,018,013)</u>	<u>\$ 11,518,355</u>
At December 31, 2021	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Fixed maturities:				
U.S. government and agencies	\$ 2,211,553	\$ 469,420	\$ (5,200)	\$ 2,675,773
State and political subdivisions	780,544	100,672	(1,001)	880,215
Foreign sovereign	26,605	3,946	(110)	30,441
Corporate securities	8,504,225	1,313,289	(16,120)	9,801,394
Residential mortgage-backed securities	505,882	40,118	(1,832)	544,168
Commercial mortgage-backed securities	377,474	33,804	(1,152)	410,126
Asset-backed securities	728,846	38,734	(14,890)	752,690
Collateralized debt obligations	<u>652,238</u>	<u>3,930</u>	<u>(4,272)</u>	<u>651,896</u>
Total fixed maturities	13,787,367	2,003,913	(44,577)	15,746,703
Preferred stock	212,939	8,629	(1,086)	220,482
Common stock	<u>-</u>	<u>11</u>	<u>-</u>	<u>11</u>
Total fixed maturity and equity securities	<u>\$ 14,000,306</u>	<u>\$ 2,012,553</u>	<u>\$ (45,663)</u>	<u>\$ 15,967,196</u>

The unrealized loss and fair values by investment category and by duration of the investments in a continuous unrealized loss position of the segregated portfolio—general account assets supporting the funds withheld at interest were as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
At December 31, 2022						
Fixed maturities:						
U.S. government and agencies	\$ 1,482,999	\$ (567,635)	\$ 45,956	\$ (30,000)	\$ 1,528,955	\$ (597,635)
State and political subdivisions	497,236	(62,086)	72,971	(13,678)	570,207	(75,764)
Foreign Sovereign	15,470	(2,258)	911	(481)	16,381	(2,739)
Corporate securities	6,721,664	(984,224)	281,261	(80,857)	7,002,925	(1,065,081)
Residential mortgage-backed securities	239,439	(30,450)	33,474	(8,008)	272,913	(38,458)
Commercial mortgage-backed securities	242,831	(31,207)	33,622	(9,303)	276,453	(40,510)
Asset-backed securities	474,697	(58,861)	82,518	(19,584)	557,215	(78,445)
Collateralized debt obligations	271,456	(31,783)	312,396	(44,229)	583,852	(76,012)
Total fixed maturities	9,945,792	(1,768,504)	863,109	(206,140)	10,808,901	(1,974,644)
Preferred stock	139,805	(33,208)	20,252	(10,161)	160,057	(43,369)
Total fixed maturity and equity securities	<u>\$ 10,085,597</u>	<u>\$ (1,801,712)</u>	<u>\$ 883,361</u>	<u>\$ (216,301)</u>	<u>\$ 10,968,958</u>	<u>\$ (2,018,013)</u>
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
At December 31, 2021						
Fixed maturities:						
U.S. government and agencies	\$ 2,627,982	\$ (868)	\$ 47,791	\$ (4,332)	\$ 2,675,773	\$ (5,200)
State and political subdivisions	879,309	(769)	906	(232)	880,215	(1,001)
Foreign Sovereign	29,811	(63)	630	(47)	30,441	(110)
Corporate securities	9,777,216	(13,913)	24,178	(2,207)	9,801,394	(16,120)
Residential mortgage-backed securities	535,568	(1,254)	8,600	(578)	544,168	(1,832)
Commercial mortgage-backed securities	407,168	(828)	2,958	(324)	410,126	(1,152)
Asset-backed securities	689,450	(6,541)	63,240	(8,349)	752,690	(14,890)
Collateralized debt obligations	634,518	(3,345)	17,378	(927)	651,896	(4,272)
Total fixed maturities	15,581,022	(27,581)	165,681	(16,996)	15,746,703	(44,577)
Preferred stock	215,830	(572)	4,652	(514)	220,482	(1,086)
Common stock	11	-	-	-	11	-
Total fixed maturity and equity securities	<u>\$15,796,863</u>	<u>\$(28,153)</u>	<u>\$170,333</u>	<u>\$(17,510)</u>	<u>\$15,967,196</u>	<u>\$(45,663)</u>

At December 31, 2022, 551 fixed-maturity investments with a total unrealized loss of \$206,140 had been in an unrealized loss position for 12 months or more. Of those securities in an unrealized loss position for 12 months or more, 114 securities were below 70% of book value with an unrealized loss of \$68,030.

At December 31, 2021, 85 fixed-maturity investments with a total unrealized loss of \$16,996 had been in an unrealized loss position for 12 months or more. Of those securities in an unrealized loss position for 12 months or more, 3 securities were below 70% of book value with an unrealized loss of \$812.

The contractual maturities of the fixed maturity securities in the segregated assets supporting funds withheld at interest as of December 31, 2022, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
0 to 1 Year	\$ 81,845	\$ 81,332
1 to 5 years	675,005	644,782
5 to 10 years	1,067,729	967,227
10 to 20 years	3,583,533	3,162,543
> 20 years	5,917,550	4,756,370
Residential mortgage-backed securities	318,830	280,682
Commercial mortgage-backed securities	318,794	278,301
Asset-backed securities	661,858	584,229
Collateralized debt obligations	<u>660,211</u>	<u>584,200</u>
Total fixed maturities	<u>\$ 13,285,355</u>	<u>\$ 11,339,666</u>

Commercial Mortgage Loans

Commercial mortgage loans (CMLs) represented approximately 5.4% and 5.2% of the Company's segregated portfolio of assets—general account supporting the funds withheld at interest as of December 31, 2022 and 2021, respectively. The amortized cost, fair value and the related gross unrealized gain (loss) are as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
December 31, 2022	<u>\$ 736,337</u>	<u>\$ 457</u>	<u>\$ (52,862)</u>	<u>\$ 683,932</u>
December 31, 2021	<u>\$ 850,248</u>	<u>\$ 54,226</u>	<u>\$ (57)</u>	<u>\$ 904,417</u>

The unrealized loss and fair values by the duration of the CMLs in a continuous unrealized loss position are as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2022	<u>\$ 666,003</u>	<u>\$ (52,295)</u>	<u>\$ 3,976</u>	<u>\$ (567)</u>	<u>\$ 669,979</u>	<u>\$ (52,862)</u>
December 31, 2021	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,738</u>	<u>\$ (57)</u>	<u>\$ 4,738</u>	<u>\$ (57)</u>

The CML portfolio of the Company's segregated portfolio of assets—general account supporting the funds withheld at interest is collateralized by a variety of commercial real estate property types located across the United States. The principal geographic distribution as of December 31 is shown below. No other state represented more than 5% of the portfolio.

Percentage of Loan Portfolio Fair Value	2022	2021
California	17.2 %	16.7 %
Virginia	13.5	11.6
New York	13.3	15.2
Tennessee	6.4	6.5
Texas	5.3	5.3
Florida	4.8	5.0
Ohio	2.9	5.9

The types of properties collateralizing the CMLs as of December 31 are as follows:

Percentage of Loan Portfolio Fair Value	2022	2021
Multifamily	52.0 %	41.2 %
Retail	16.8	16.9
Other commercial	14.6	13.8
Industrial	8.4	7.7
Office buildings	<u>8.2</u>	<u>20.4</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>

The contractual maturities of the CML portfolio as of December 31, 2022, are as follows:

	Number of Loans	Fair Value	Percent
2023	7	\$ 60,956	8.9 %
2024	12	41,343	6.0
2025	24	104,398	15.3
2026	6	33,572	4.9
2027	4	10,192	1.5
Thereafter	<u>58</u>	<u>433,471</u>	<u>63.4</u>
Total	<u>111</u>	<u>\$ 683,932</u>	<u>100.0 %</u>

Loan-to-value (LTV) and debt service coverage (DSC) ratios are measures commonly used to assess risk and quality of CMLs. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative to the value of the underlying property. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. There were no loans at December 31, 2022 with an LTV ratio greater than 75%. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of estimated cash flows from the property available to the borrower to meet principal and interest payment obligations. A DSC ratio of less than 1.0 indicates that property's operations do not generate sufficient cash flows to cover the debt payments. A loan can be considered performing and not a credit issue while experiencing a DSC below 1.0 for periods of time due to timing issues with regard to the receipt of income and payment of periodic expenses, such as taxes.

The following table reflects the distribution of the Company's CMLs across these two risk and quality measures as of December 31, 2022:

Loan-to-Value Ratios	Debt Service Coverage Ratio					Total
	Less 1.0	1.0 to 1.25	1.26 to 1.5	1.51 to 1.75	Above 1.75	
Less than 50%	\$ 3,976	\$ 3,192	\$ 25,405	\$ 29,354	\$ 440,434	\$ 502,361
50% to 60%	-		11,887	98,846	26,530	137,263
60% to 75%	-	26,127	5,300	-	12,881	44,308
Total	<u>\$ 3,976</u>	<u>\$ 29,319</u>	<u>\$ 42,592</u>	<u>\$ 128,200</u>	<u>\$ 479,845</u>	<u>\$ 683,932</u>

The following table reflects the distribution of the Company's CMLs across these two risk and quality measures as of December 31, 2021:

Loan-to-Value Ratios	Debt Service Coverage Ratio					Total
	Less 1.0	1.0 to 1.25	1.26 to 1.5	1.51 to 1.75	Above 1.75	
Less than 50%	\$ -	\$ 4,033	\$ 69,849	\$ 153,955	\$ 563,411	\$ 791,248
50% to 60%	-	33,906	18,605	15,802	7,623	75,936
60% to 75%	-	21,848	-	-	15,385	37,233
Total	<u>\$ -</u>	<u>\$ 59,787</u>	<u>\$ 88,454</u>	<u>\$ 169,757</u>	<u>\$ 586,419</u>	<u>\$ 904,417</u>

5. CONCENTRATION OF CREDIT RISK

As of December 31, 2022, substantially all the Company's cash and cash equivalents were held in four financial institutions that the Company considers to be of high quality. As of December 31, 2021, substantially all of the Company's cash and cash equivalents were held in three financial institutions that the Company considers to be of high quality.

6. REINSURANCE ASSUMED

At December 31, 2022, the Company has five reinsurance agreements with WRAC involving certain pre-XXX term, universal life, whole life and final expense exposures. The treaties were initially effective in 2005 and 2006 and have been amended periodically.

In 2017, WRAC reinsured closed blocks of non-par payout annuities (payouts) and corporate owned and bank owned life insurance business (COLI | BOLI) on a coinsurance and modified coinsurance basis. Concurrently, WRAC retroceded the blocks to the Company, with the retrocession on a 100% coinsurance funds withheld basis. Also in 2017, Wilcac Life Insurance Company, an Illinois domiciled affiliate (WCAC), ceded its block of payouts to the Company on a 100% coinsurance funds withheld basis.

In 2020, WRAC retroceded 50% of a closed block of long-term care business as well as a 100% of a XXX term block, both on a coinsurance funds withheld basis.

The following table presents information for the Company's reinsurance liabilities as of December 31.

Reinsurance Liability Assumed	2022	2021
Affiliates—WRAC & WCAC	\$ 20,335,054	\$ 21,218,684
Non-affiliates—other insurers	<u>785,470</u>	<u>833,784</u>
Total Reserve for future policy benefits and Interest sensitive contract liabilities	<u>\$ 21,120,524</u>	<u>\$ 22,052,468</u>

The effect of reinsurance and retrocessions on total premiums earned is as follows:

	2022	2021
Reinsurance assumed—affiliate	\$ 139,243	\$ 154,288
Reinsurance assumed—non-affiliate	<u>3,238</u>	<u>3,779</u>
Total premiums	<u>\$ 142,481</u>	<u>\$ 158,067</u>

The effect of reinsurance and retrocessions on total claims and policy benefits is as follows:

	2022	2021
Reinsurance assumed—affiliate	\$ 439,722	\$ 406,096
Reinsurance assumed—non-affiliate	<u>(2,066)</u>	<u>14,104</u>
Total claims and policy benefits	<u>\$ 437,656</u>	<u>\$ 420,200</u>

At December 31, 2022 and 2021, there were no retrocessional receivables.

The effect of reinsurance and retrocessions on life insurance inforce is as follows:

	Direct	Assumed	Ceded	Net
December 31, 2022	<u>\$ 6,156</u>	<u>\$ 29,389,584</u>	<u>\$ -</u>	<u>\$ 29,395,740</u>
December 31, 2021	<u>\$ 8,261</u>	<u>\$ 31,531,977</u>	<u>\$ -</u>	<u>\$ 31,540,238</u>

7. DEFERRED ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED

The balances and changes in DAC for the years ended December 31 are as follows:

	2022	2021
Beginning of year	\$ 33,714	\$ 40,867
Capitalized	-	(25)
Amortized	<u>(5,381)</u>	<u>(7,128)</u>
End of year	<u>\$ 28,333</u>	<u>\$ 33,714</u>

The balances and changes in VOBA for the years ended December 31 are as follows:

	2022	2021
Beginning of year	\$ 375,506	\$ 238,668
Amortized	(9,945)	(17,608)
Attributable to realized/unrealized (gains) and losses	700,221	140,141
Impact of unlocking	<u>(5,029)</u>	<u>14,305</u>
End of year	<u>\$ 1,060,753</u>	<u>\$ 375,506</u>

The expected amortization of VOBA in the next five years is as follows:

2023	\$ 8,519
2024	12,598
2025	15,182
2026	20,066
2027	21,370

8. INCOME TAXES

WREB became a US taxpayer as of January 1, 2018.

Under current Bermuda law, the Company is not required to pay taxes in Bermuda on income or realized capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2035.

At December 31, 2022, the Company had a net operating loss of \$102,652, a capital loss carryforward of \$1,810, and no tax credits. In addition, a valuation allowance against the net deferred tax asset was applied in the amount of \$3,188. At December 31, 2021, the Company did not have any net operating losses, tax credits, capital loss carryforwards or valuation allowances.

Income tax expense attributable to income from continuing operations for the years ended December 31, 2022 and 2021, is as follows:

	2022	2021
Current tax expense (benefit)	\$ (4,305)	\$ 28,408
Deferred tax expense (benefit)	<u>(719,175)</u>	<u>(65,167)</u>
Income tax expense (benefit)	<u><u>\$ (723,480)</u></u>	<u><u>\$ (36,759)</u></u>

The income tax expense differs from applying the U.S. federal income tax rate of 21% to income before taxation as a result of the following:

	2022	2021
Computed expected tax expense (benefit) at 21%	\$ (723,097)	\$ (36,479)
Other	<u>(383)</u>	<u>(280)</u>
Income tax expense (benefit)	<u><u>\$ (723,480)</u></u>	<u><u>\$ (36,759)</u></u>

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities at December 31, 2022 and 2021, are presented in the following table:

	2022	2021
Deferred income tax assets:		
Reserve for future policy benefits	\$ 1,322,185	\$ 1,245,751
Investments	610,228	-
Net operating losses	21,557	-
Capital loss carryforwards	380	-
Employee benefits	2,796	1,505
Nondeductible accruals	74	53
Other	<u>3</u>	<u>-</u>
Total deferred tax assets	1,957,223	1,247,309
Deferred income tax liabilities:		
Differences between tax and financial reporting amounts concerning certain reinsurance transactions	(872,094)	(748,603)
Investments	-	(282,252)
Deferred acquisition costs/value of business acquired	(212,055)	(65,740)
Other	<u>-</u>	<u>(3)</u>
Total deferred tax liabilities	<u>(1,084,149)</u>	<u>(1,096,598)</u>
Valuation allowance	<u>(3,188)</u>	<u>-</u>
Net deferred tax asset	<u><u>\$ 869,886</u></u>	<u><u>\$ 150,711</u></u>

The Company's U.S. federal income tax returns for tax years 2019–2022 are open and subject to examination by the Internal Revenue Service.

As of December 31, 2022, the Company had no unrecognized tax benefits.

The Inflation Reduction Act enacted the Corporate Alternative Minimum Tax (CAMT) on August 16, 2022. For applicable corporations that report over \$1 billion in profits to shareholders, the act includes a 15% CAMT based on book income. The Company has determined that it does not expect to be liable for CAMT in 2023.

9. STATUTORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

The Company is subject to insurance laws and regulations of Bermuda. These regulations include restrictions that limit the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities.

Under Bermuda law, the following statutory conditions must all be met prior to a distribution to shareholders:

1. The value of the assets backing the Company's insurance liabilities, as certified by the Company's approved actuary, must be greater than the Company's reserves (also certified) after the distribution (Insurance Act, Section 24);
2. Company must be solvent after payment of the dividend, i.e. the realizable value of its assets must be greater than its liabilities (Companies Act, Section 54);
3. Bermuda Monetary Authority (BMA) approval is required for dividends exceeding 25% of the Company's statutory capital and surplus, per its previous year's statutory balance sheet (Insurance Act, Section 31B);
4. BMA approval is required for any distribution exceeding 15% of the Company's statutory capital, per its previous year's statutory financial statements (Insurance Act, Section 31C); and,
5. After the distribution, the Company's capital must be above regulatory margins (Insurance Act, Sections 31B and 31C).

The Company can pay dividends of \$327,618 in 2023 without prior regulatory approval.

10. SHAREHOLDERS' EQUITY

Dividends

On September 20, 2022, the Company declared a dividend of \$75,000 payable to its shareholders, WRL and Wilton Re US Holdings. The dividend was paid using cash on September 21, 2022.

On December 5, 2022, the Company declared a dividend of \$50,000 payable to its shareholders, WRL and Wilton Re US Holdings. The dividend was paid using cash on December 21, 2022.

On May 12, 2021, the Company declared a dividend of \$280,000 payable to its shareholders, WRL and Wilton Re US Holdings. The dividend was paid using cash and fixed income securities on May 21, 2021.

On December 17, 2021, the Company declared a dividend of up to \$70,000 payable to its shareholders, WRL and Wilton Re US Holdings. A dividend of \$40,000 was paid using cash on December 20, 2021. No further dividend was paid with the remaining \$30,000 approved.

11. RELATED PARTY TRANSACTIONS

The Company is party to a Service Agreement with its affiliate, Wilton Re Services, Inc., (Wilton Services) under which Wilton Services provides certain accounting, actuarial and administrative services to the Company (the Services Agreement). During 2022 and 2021, the Company incurred \$8,133 and \$8,561, respectively of expenses for these services. Amounts payable to parents, subsidiaries and affiliates of \$12,123 and \$11,108 at December 31, 2022 and 2021, respectively, were primarily related to the Services Agreement.

During 2022, the Company transferred ownership of UNUK Holdings LP (UNUK) to Wilcac Life Insurance Company (WCAC). In Exchange, WCAC transferred cash equal to the market value of UNUK of \$24,653.

12. COMMITMENTS AND CONTINGENCIES

Funding of Investments

The Company has no commitments to fund limited partnership investments as of December 31, 2022. As of December 31, 2021, the Company had commitments to fund limited partnership investments of \$25,000 and \$10,923 was unfunded.

Collateral Arrangements

In November 2008, the Company entered into a reinsurance trust agreement with WRAC as beneficiary, for the purpose of collateralizing the Company's obligations under the terms of the reinsurance agreements between the Company and WRAC. At December 31, 2022 and 2021, the balance in the trust was \$2,791 and \$3,344, respectively.

Legal Proceedings

In the normal course of business, the Company is involved in litigation, principally from claims made under insurance policies and contracts. The ultimate disposition of such litigation is not expected to have a material adverse effect on the Company's financial condition, liquidity or results of operations. At the current time the Company is not a party to any pending litigation.

Capital Maintenance Agreement

Effective April 5, 2019, the Company entered into a Capital Maintenance Agreement (CMA) with WRL. Under the CMA terms, WRL agrees to maintain in the Company, "Available Statutory Economic Capital and Surplus" in excess of 125% of its "Enhanced Capital Requirement" at all times as defined in the Insurance (Prudential Standards) (Class C, D and Class E Solvency Requirement) Rules 2011, up to an aggregate amount of \$400,000.

13. LONG TERM AND OTHER DEBT

Liquidity Facilities

WRL obtains letters of credit for the benefit of various affiliated and unaffiliated insurance companies from which the Company assumes business. These letters of credit represent guarantees of performance under the reinsurance agreements and allow ceding companies to take statutory reserve credits.

In September 2021, WRL, along with the Wilton Re US Holdings, extended its existing five-year \$500,000 senior revolving credit facility (Wells Fargo Facility I) by 3 years, with a new expiry in 2026 with a syndicate of lenders. The facility includes a \$100,000 letter of credit (LOC) sublimit. The facility also requires WRL's combined leverage ratio not to be greater than 0.35 to 1.00 and that WRL maintain a minimum adjusted consolidated tangible net worth. Borrowings under the Wells Fargo Facility I bear interest, at the applicable borrower's option, at either a base rate or a LIBOR rate (or following a LIBOR replacement event, a SOFR rate) (or, in the case of borrowings denominated in Canadian Dollars, at the Canadian Dollar Offered Rate or "CDOR"), in each case, plus an applicable margin that is determined according to a sliding scale based upon the majority of the financial strength rating of WRAC, the Company, and *ivari* (a Canadian life insurance affiliate). The applicable margin for base rate loans ranges from 0.125% to

0.750%. The applicable margin for LIBOR loans/CDOR Loans/SOFR Loans ranges from 1.125% to 1.750%. Any amounts borrowed may be repaid at any time without prepayment penalty.

LOCs issued under the Wells Fargo facility I may be collateralized by qualifying cash and securities (liquid collateral). The market value of collateral held by the Company at December 31, 2022 and 2021, was \$21,575 and \$22,296, respectively. At December 31, 2022 and 2021, there were approximately \$17,945 and \$17,550, respectively of outstanding bank letters of credit issued by the Company under the facility in favor of non-affiliated companies.

In September 2022, WRL, along with Wilton Re US Holdings, renewed its 364-day \$500,000 senior revolving credit facility (Wells Fargo Facility II), which was first added in October 2017 and has been renewed every year since it was first added, with a syndicate of lenders. Except for the applicable interest rate margin, Wells Fargo Facility II has the same financial covenant restrictions and rates as Wells Fargo Facility I. The applicable margin for base rate loans ranges from 0.125% to 0.750%. The applicable margin for LIBOR loans/CDOR Loans/SOFR Loans ranges from 1.125% to 1.750%.

On February 16, 2022, \$115,000 was drawn by WREB under the 364-day \$500,000 senior credit facility (Well Fargo Facility II). On May 19, 2022, WREB subsequently repaid the \$115,000. The company incurred \$478 of interest expense on debt.

The Company is a borrower under both Wells Fargo Facility I and Wells Fargo Facility II. At December 31, 2022 and 2021, there was \$0 borrowed under the facilities by the Company.

On December 5, 2022, the Company issued a \$100,000 unsecured letter of credit to WCAC to provide reserve credit for certain 2022 activity.

14. FAIR VALUE

The Company has categorized its assets and liabilities recorded at fair value, based on the priority of the inputs to the valuation technique, into a three-level hierarchy. The fair value hierarchy 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). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the consolidated balance sheets are categorized as follows:

Level 1 Unadjusted quoted prices for identical assets or liabilities in an active market.

The types of financial investments included in Level 1 are listed equities, mutual funds, money market funds, US Treasury Securities and non-interest-bearing cash.

Level 2 Pricing inputs other than quoted prices in active markets which are either directly or indirectly observable as of the reporting date, and fair value determined through the use of models or other valuation methods. Such inputs may include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields and spreads in the market. Level 2 valuations may be obtained from independent sources for identical or comparable assets or through the use of valuation methodologies using observable market-corroborated inputs. Prices from third-party pricing services are validated through analytical reviews.

The types of financial instruments included in Level 2 include publicly traded issues such as US and foreign corporate securities, and residential and commercial mortgage-backed securities, among others.

Level 3 Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. They reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. Market standard techniques for determining the estimated fair value of certain securities that trade infrequently may rely on inputs that are not observable in the market or cannot be derived from or corroborated by market observable data. Prices are determined using valuation methodologies such as discounted cash flow models and other techniques. Management believes these inputs are consistent with what other market participants would use when pricing similar assets.

The types of financial investments included in Level 3 excluding funds withheld, primarily include private placements, and certain asset-backed and mortgage-backed securities.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value on a recurring basis and their placement in the fair value hierarchy, including those items for which the Company has elected the FVO, are summarized below at:

At December 31, 2022	Fair Value	Level 1	Level 2	Level 3
Invested assets:				
U.S. government and agencies	\$ 36,602	\$ 33,733	\$ 2,869	\$ -
State and political subdivisions	61,664	-	57,968	3,696
Corporate securities	138,772	-	137,155	1,617
Residential mortgage-backed securities	7,148	-	7,148	-
Commercial mortgage-backed securities	7,962	-	7,962	-
Asset backed securities	22,922	-	17,998	4,924
Collateralized debt obligations	5,206	-	5,206	-
Total fixed maturity	280,276	33,733	236,306	10,237
Preferred stock	1,779	-	1,779	-
Total fixed maturity and equity securities	282,055	33,733	238,085	10,237
Other invested assets:				
Life settlement contracts—direct	133,838	-	-	133,838
All other	308	-	308	-
Total other invested assets	134,146	-	308	133,838
Total invested assets	416,201	33,733	238,393	144,075
Funds withheld at interest:				
U.S. government and agencies	1,529,205	1,341,384	187,821	-
State and political subdivisions	644,390	-	575,450	68,940
Foreign sovereign	16,380	-	16,380	-
Corporate securities	7,422,279	-	6,868,414	553,865
Residential mortgage-backed securities	280,682	-	280,681	1
Commercial mortgage-backed securities	278,301	-	278,301	-
Asset backed securities	584,229	-	351,014	233,215
Collateralized debt obligations	584,200	-	584,200	-
Total fixed maturity	11,339,666	1,341,384	9,142,261	856,021
Preferred stock	178,673	-	168,588	10,085
Common stock	16	-	-	16
Total fixed maturity and equity securities	11,518,355	1,341,384	9,310,849	866,122
Commercial mortgage loans	683,932	-	-	683,932
Other invested assets	786,621	3	364,751	421,870
Funds withheld at interest—segregated portfolio of assets—general account	12,988,908	1,341,384	9,675,600	1,971,924
Funds withheld at interest—segregated portfolio of assets—separate account	3,430,213	-	3,430,213	-
Total funds withheld at interest	16,419,121	1 2 1,341,384	13,105,813	1,971,924
Other liabilities—life settlement contracts—secured borrowing	(35,368)	-	-	(35,368)
Total	\$ 16,799,954	\$ 1,375,117	\$ 13,344,206	\$ 2,080,631

1 Cash and short-term investments of \$231,269 is a component of funds withheld at interest: segregated portfolio of assets—general account not measured at fair value on a recurring basis.

2 Funds withheld at interest: Non segregated portfolio of assets of \$376,149 are a component of Funds withheld at interest not measured at fair value on a recurring basis.

3 Limited partnerships of \$314,493 is a component of other invested assets not measured at fair value on a recurring basis

At December 31, 2021	Fair Value	Level 1	Level 2	Level 3
Invested assets:				
U.S. government and agencies	\$ 28,846	\$ 25,900	\$ 2,946	\$ -
State and political subdivisions	11,091	-	6,726	4,365
Foreign sovereign	250	-	250	-
Corporate securities	42,452	-	36,194	6,258
Residential mortgage-backed securities	2,960	-	2,960	-
Commercial mortgage-backed securities	4,293	-	2,477	1,816
Asset backed securities	16,931	-	9,564	7,367
Collateralized debt obligations	<u>7,770</u>	<u>-</u>	<u>7,770</u>	<u>-</u>
Total fixed maturity	114,593	25,900	68,887	19,806
Preferred stock	1,571	-	1,571	-
Common stock	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fixed maturity and equity securities	116,164	25,900	70,458	19,806
Other invested assets:				
Life settlement contracts—direct	148,387	-	-	148,387
All other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other invested assets	148,387	-	-	148,387
Total invested assets	<u>264,551</u>	<u>25,900</u>	<u>70,458</u>	<u>168,193</u>
Funds withheld at interest:				
U.S. government and agencies	2,675,773	2,367,428	308,345	-
State and political subdivisions	880,215	-	796,186	84,029
Foreign sovereign	30,441	-	30,441	-
Corporate securities	9,801,393	-	9,334,797	466,596
Residential mortgage-backed securities	544,168	-	544,168	-
Commercial mortgage-backed securities	410,126	-	409,019	1,107
Asset backed securities	752,690	-	458,481	294,209
Collateralized debt obligations	<u>651,897</u>	<u>-</u>	<u>642,100</u>	<u>9,797</u>
Total fixed maturity	15,746,703	2,367,428	12,523,537	855,738
Preferred stock	220,482	-	220,482	-
Common stock	<u>11</u>	<u>-</u>	<u>-</u>	<u>11</u>
Total fixed maturity and equity securities	15,967,196	2,367,428	12,744,019	855,749
Commercial mortgage loans	904,417	-	-	904,417
Other invested assets	<u>1,071,844</u>	<u>-</u>	<u>466,348</u>	<u>605,496</u>
Funds withheld at interest—segregated portfolio of assets—general account	17,943,457	2,367,428	13,210,367	2,365,662
Funds withheld at interest—segregated portfolio of assets—separate account	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>3,974,912</u>	<u>-</u>	<u>3,974,912</u>	<u>-</u>
Total funds withheld at interest	21,918,369	2,367,428	17,185,279	2,365,662
Other liabilities—life settlement contracts—secured borrowing	<u>(39,610)</u>	<u>-</u>	<u>-</u>	<u>(39,610)</u>
Total	<u>\$ 22,143,310</u>	<u>\$ 2,393,328</u>	<u>\$ 17,255,737</u>	<u>\$ 2,494,245</u>

1 Limited partnerships of \$22,442 is a component of other invested assets not measured at fair value on a recurring basis.

2 Cash and short-term investments of \$278,277 is a component of funds withheld at interest: segregated portfolio of assets—general account not measured at fair value on a recurring basis.

3 Funds withheld at interest: Non segregated portfolio of assets of \$616,034 are a component of Funds withheld at interest not measured at fair value on a recurring basis.

Fixed Maturity and Equity Securities

Publicly traded fixed maturity securities included in fixed maturity and equity securities and funds withheld at interest are valued based on quoted market prices or broker prices. Private placement securities included in fixed maturity and equity securities and funds withheld at interest are valued based on the credit quality and duration of marketable securities deemed comparable by the Company's investment advisor, which may be of another issuer. In some cases, discounted cash flow analysis may be used.

U.S. Government and Agencies, State and Political Subdivisions, Foreign Sovereign and Corporate Securities

US Treasury securities, which trade based on quoted prices for identical assets in an active market, are included in Level 1.

The fair value of Level 2 bonds and securities is predominantly priced by third-party pricing services and broker quotes. Their pricing models typically utilize the following inputs: principal and interest payments, treasury yield curve, credit spreads from new issue and secondary trading markets, early redemption or call features, benchmark securities and reported trades.

Level 3 bonds and securities primarily represent investments in privately placed bonds, credit tenant loans and other less liquid corporate and municipal bonds for which prices are not readily available. To determine a fair value, the Company may rely on modeling for market valuation using both observable and unobservable inputs. These inputs are entered into industry standard pricing models to determine the final price of the security. These inputs typically include projected cash flows, discount rate, industry sector, underlying collateral, credit quality of the issuer, maturity, embedded options, recent new issuance, comparative bond analysis, and seniority of debt.

The extent of the use of each market input depends on the asset class, market conditions and the relevant market data available. Depending on the security, these inputs may change, some market inputs may not be relevant or additional inputs may be necessary.

The fair value of corporate bonds classified as Level 3 is sensitive to changes in the interest rate spread over the corresponding US Treasury rate. This spread represents a risk premium that is affected by company-specific and market factors. An increase in the spread can be caused by a perceived increase in credit risk of a specific issuer and/or an increase in the overall market risk premium associated with similar securities.

Mortgage-Backed Securities, Asset-Backed Securities and Collateralized Debt Obligations

This category consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities, such as credit card and automobile receivables, home equity loans, manufactured housing bonds and collateralized debt obligations. Level 2 securities are priced from information provided by third-party pricing services and independent broker quotes. For mortgage-backed and asset-backed securities, valuation is based primarily on matrix pricing or other similar techniques using standard market inputs including spreads for actively traded securities, spreads off benchmark yields, expected prepayment speeds and volumes, current and forecasted loss severity, credit rating, weighted average coupon, weighted average maturity, average delinquency rates, geographic region, debt-service coverage ratios and issuance-specific information including, but not limited to: collateral type, payment terms of the underlying assets, payment priority within the tranche, structure of the security, deal performance, vintage of loans and insurance guarantees.

The Company has included mortgage-backed and asset-backed securities with less liquidity in Level 3, these securities are primarily privately placed transactions with little transparency to the market or other securities with limited or inactive trading markets. Significant inputs cannot be derived principally from or corroborated by observable market data. The significant unobservable inputs used in the fair value measurement of these securities typically include discounted cash flows, credit rating of issuer, debt coverage ratios, type and quality of underlying collateral, prepayment rates, probability of default and loss severity in the event of default.

Included in the pricing of mortgage-backed and asset-backed securities are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the securities' underlying structure and rates of prepayments previously experienced at the interest rate levels projected for the underlying collateral. Changes in significant inputs used in the fair value measurement, such as the paydown rate (the projected annual rate of principal reduction), may affect the fair value of the securities. For example, a decrease in the paydown rate would increase the projected weighted average life and increase the sensitivity of the fair value to changes in interest rates.

Preferred and Common Stock

The fair values of preferred and common stocks are primarily based upon quoted market prices in active markets and are classified within Level 1 in the fair value hierarchy. The fair values of preferred and common stocks, for which quoted market prices are not readily available, are based on prices obtained from independent pricing services and are generally classified within Level 2 in the fair value hierarchy.

Commercial Mortgage Loans

The Company elects the FVO for CMLs. The loans are valued using a net present value calculation of future cash flows. The calculation uses a credit spread plus a liquidity spread and is added to an interpolated Treasury yield to determine the discount rate. Credit and liquidity spreads are derived from industry spread curve data provided by third parties that are considered market-makers in commercial mortgage loans.

The CMLs are considered Level 3 in the fair value hierarchy due to the limited transaction activity and unobservable inputs.

Other Invested Assets

Surplus Debentures

Surplus debentures are similar to corporate securities. The fair values of surplus debentures are primarily based on prices obtained from independent pricing services or may be obtained from independent third-party dealers in the absence of quoted market prices. They are generally classified within Level 2 in the fair value hierarchy.

Funds Withheld

The fair value of embedded derivatives associated with funds withheld reinsurance treaties is determined based upon a total return swap methodology with reference to the fair value of the investments held by the ceding company that support the Company's funds withheld at interest asset. The fair value of the underlying assets is generally based on market observable inputs using market valuation methodologies.

Changes of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

We obtain our Level 3 fair value measurements from independent, third-party pricing sources. We do not develop the significant inputs used to measure the fair value of these assets and liabilities, and the information regarding the significant inputs is not readily available to us. Independent broker-quoted fair values are non-binding quotes developed by market makers or broker-dealers obtained from third-party sources recognized as market participants. The fair value of a broker-quoted asset or liability is based solely on the receipt of an updated quote from a single market maker, or a broker-dealer recognized as a market participant as we do not adjust broker quotes when used as the fair value measurement for an asset or liability. In addition, some prices are determined based on discounted cash flow models.

The Company's policy is to recognize transfers into and out of levels within the fair value hierarchy at the end of the period in which the actual event or change in circumstances that caused the transfer occurs.

For all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), the following table presents select activity for the years ended December 31, 2022 and 2021:

	2022			2021		
	Purchases	Transfer into	Transfer out of	Purchases	Transfer into	Transfer out of
Invested assets:						
Corporate securities	\$ 625	\$ -	\$ (3,714)	\$ 77,867	\$ 35,758	\$ (1,023)
Commercial mortgage-backed securities	-	-	(1,816)	961	1,999	-
Asset-backed securities	1,006	1,037	-	11,496	41,923	(1,811)
Common Stock	-	-	-	-	6	-
Commercial Mortgage Loans	-	-	-	4,997	-	-
Other Invested Assets	-	-	-	130,555	-	-
Total invested assets	<u>\$ 1,631</u>	<u>\$ 1,037</u>	<u>\$ (5,530)</u>	<u>\$ 225,876</u>	<u>\$ 79,686</u>	<u>\$ (2,834)</u>

15. SUBSEQUENT EVENTS

The Company has evaluated the impact of subsequent events through April 24, 2023, representing the date at which the consolidated financial statements were available to be issued. The following event occurred subsequent to December 31, 2022:

On February 3, 2023, the Company issued a \$50,000 unsecured letter of credit to WCAC to provide reserve credit for certain 2023 activity.

On March 10, 2023, the FDIC took over Silicon Valley Bank after the bank experienced substantial run on deposits, and two days later, Signature Bank was forced to close. On March 19, 2023, the Swiss regulators arranged for UBS to purchase Credit Suisse at distressed levels without a shareholder vote. The Company is in the process of assessing the direct and indirect exposure to the banking sector and has already exited some positions to minimize exposure. To date, our realized losses related to sales or write-downs of impacted securities is immaterial, and we will continue to monitor our exposure to depository institutions. Additional turmoil in this sector could have a material adverse (direct or indirect) effect on global, national and local economies, as well as the Company. The extent to which the current state of the banking sector impacts the Company's results will depend on future developments.

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SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
Wilton Reinsurance Bermuda Limited:

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary consolidating balance sheets as of December 31, 2022 and 2021, and the supplementary consolidating statements of comprehensive income (loss) for the years then ended are presented for the purpose of additional analysis and are not a required part of the financial statements. This supplementary information is the responsibility of Wilton Reinsurance Bermuda Limited and subsidiary's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion such information is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte + Touche LLP
April 24, 2023

WILTON REINSURANCE BERMUDA LIMITED AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET AS OF DECEMBER 31, 2022 (Amounts in thousands of U.S. dollars)

	WREB	Mills Creek	Eliminations	WREB Consolidated
Assets				
Investments:				
Fixed maturity and equity securities at fair value	\$ 282,055	\$ -	\$ -	\$ 282,055
Policy loans	14,375	-	-	14,375
Funds withheld at interest	17,341,033	-	-	17,341,033
Other invested assets	<u>308</u>	<u>133,838</u>	<u>-</u>	<u>134,146</u>
Total investments	17,637,771	133,838		17,771,609
Cash and cash equivalents	74,686	4,222	-	78,908
Accrued investment income	2,194	-	-	2,194
Premiums receivable	16,754	-	-	16,754
Other reinsurance receivables	57,414	-	-	57,414
Net deferred acquisition costs	28,333	-	-	28,333
Value of in-force business acquired	1,060,753	-	-	1,060,753
Net deferred income taxes	869,886	-	-	869,886
Other assets	<u>313,979</u>	<u>3,696</u>	<u>(141,473)</u>	<u>176,202</u>
Total assets	<u>\$ 20,061,770</u>	<u>\$ 141,756</u>	<u>\$ (141,473)</u>	<u>\$ 20,062,053</u>
Liabilities and shareholders' equity				
Liabilities:				
Reserves for future policy benefits	\$ 11,628,363	\$ -	\$ -	\$ 11,628,363
Interest sensitive contract liabilities	9,492,161	-	-	9,492,161
Other reinsurance liabilities	54,240	-	-	54,240
Other liabilities	<u>73,632</u>	<u>283</u>	<u>-</u>	<u>73,915</u>
Total liabilities	<u>21,248,396</u>	<u>283</u>	<u>-</u>	<u>21,248,679</u>
Shareholders' equity:				
Class A-1 common shares	32	-	-	32
Class A-2 common shares	11	-	-	11
Class B common shares	218	-	-	218
Additional paid-in capital	798,110	58,554	(58,554)	798,110
Retained earnings (deficit) and accumulated other comprehensive income (loss)	<u>(1,984,997)</u>	<u>82,919</u>	<u>(82,919)</u>	<u>(1,984,997)</u>
Total shareholders' equity	<u>(1,186,626)</u>	<u>141,473</u>	<u>(141,473)</u>	<u>(1,186,626)</u>
Total liabilities and shareholders' equity	<u>\$ 20,061,770</u>	<u>\$ 141,756</u>	<u>\$ (141,473)</u>	<u>\$ 20,062,053</u>

WILTON REINSURANCE BERMUDA LIMITED AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET AS OF DECEMBER 31, 2021 (Amounts in thousands of U.S. dollars)

	WREB	Mills Creek	Eliminations	WREB Consolidated
Assets				
Investments:				
Fixed maturity and equity securities at fair value	\$ 116,164	\$ -	\$ -	\$ 116,164
Policy loans	16,345	-	-	16,345
Funds withheld at interest	22,812,680	-	-	22,812,680
Other invested assets	<u>22,442</u>	<u>148,387</u>	<u>-</u>	<u>170,829</u>
Total investments	22,967,631	148,387	-	23,116,018
Cash and cash equivalents	28,251	2,009	-	30,260
Accrued investment income	311	-	-	311
Premiums receivable	18,816	-	-	18,816
Other reinsurance receivables	51,755	-	-	51,755
Net deferred acquisition costs	33,714	-	-	33,714
Value of in-force business acquired	375,506	-	-	375,506
Net deferred income taxes	150,711	-	-	150,711
Other assets	<u>330,864</u>	<u>10,331</u>	<u>(158,435)</u>	<u>182,760</u>
Total assets	<u>\$ 23,957,559</u>	<u>\$ 160,727</u>	<u>\$ (158,435)</u>	<u>\$ 23,959,851</u>
Liabilities and shareholders' equity				
Liabilities:				
Reserves for future policy benefits	\$ 11,962,035	\$ -	\$ -	\$ 11,962,035
Interest sensitive contract liabilities	10,090,432	-	-	10,090,432
Other reinsurance liabilities	167,195	-	-	167,195
Other liabilities	<u>79,682</u>	<u>2,292</u>	<u>-</u>	<u>81,974</u>
Total liabilities	<u>22,299,344</u>	<u>2,292</u>	<u>-</u>	<u>22,301,636</u>
Shareholders' equity:				
Class A-1 common shares	261	-	-	261
Class A-2 common shares	-	-	-	-
Class B common shares	-	-	-	-
Additional paid-in capital	798,110	89,681	(89,681)	798,110
Retained earnings (deficit) and accumulated other comprehensive income (loss)	<u>859,844</u>	<u>68,754</u>	<u>(68,754)</u>	<u>859,844</u>
Total shareholders' equity	<u>1,658,215</u>	<u>158,435</u>	<u>(158,435)</u>	<u>1,658,215</u>
Total liabilities and shareholders' equity	<u>\$ 23,957,559</u>	<u>\$ 160,727</u>	<u>\$ (158,435)</u>	<u>\$ 23,959,851</u>

WILTON REINSURANCE BERMUDA LIMITED AND SUBSIDIARY

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2022 (Amounts in thousands of US dollars)

	WREB	Mills Creek	Eliminations	WREB Consolidated
Revenues				
Net premiums	\$ 142,481	\$ -	\$ -	\$ 142,481
Policy fees and charges	112,485	-	-	112,485
Inuring third-party reinsurance commissions	992	-	-	992
Investment earnings—net	588,337	14,161	-	602,498
Net change in unrealized gains (losses) on investments classified as trading and other	(11,304)	-	-	(11,304)
Change in value of embedded derivatives—net	(4,227,363)	-	-	(4,227,363)
Total revenues	(3,394,372)	14,161	-	(3,380,211)
Benefits and expenses				
Claims and policy benefits—net of reinsurance ceded	437,656	-	-	437,656
Interest credited to interest sensitive contract liabilities	233,134	-	-	233,134
Acquisition costs and other insurance expenses	(640,509)	-	-	(640,509)
Operating expenses	32,355	(4)	-	32,351
Interest expense on debt	478	-	-	478
Total benefits and expenses	63,114	(4)	-	63,110
Net income (loss) and comprehensive income (loss) before income taxes and equity in net income (loss) of subsidiary	(3,457,486)	14,165	-	(3,443,321)
Income tax expense (benefit)	(723,480)	-	-	(723,480)
Net income (loss) and comprehensive income (loss) before equity in net income (loss) of subsidiary	(2,734,006)	14,165	-	(2,719,841)
Equity in net income/(loss) of subsidiary	14,165	-	(14,165)	-
Net income (loss) and comprehensive income (loss)	<u>\$ (2,719,841)</u>	<u>\$ 14,165</u>	<u>\$ (14,165)</u>	<u>\$ (2,719,841)</u>

WILTON REINSURANCE BERMUDA LIMITED AND SUBSIDIARY

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31, 2021

(Amounts in thousands of US dollars)

	WREB	Mills Creek	Eliminations	WREB Consolidated
Revenues				
Net premiums	\$ 158,067	\$ -	\$ -	\$ 158,067
Policy fees and charges	113,548	-	-	113,548
Inuring third-party reinsurance commissions	879	-	-	879
Investment earnings—net	761,579	31,237	-	792,816
Net change in unrealized gains (losses) on investments classified as trading and other	2,035	-	-	2,035
Change in value of derivatives and embedded derivatives—net	(649,767)	-	-	(649,767)
Total revenues	<u>386,341</u>	<u>31,237</u>	<u>-</u>	<u>417,578</u>
Benefits and expenses				
Claims and policy benefits—net of reinsurance ceded	420,200	-	-	420,200
Interest credited to interest sensitive contract liabilities	238,098	-	-	238,098
Acquisition costs and other insurance expenses	(92,863)	-	-	(92,863)
Operating expenses	25,846	4	-	25,850
Total benefits and expenses	<u>591,281</u>	<u>4</u>	<u>-</u>	<u>591,285</u>
Net income (loss) and comprehensive income (loss) before income taxes and equity in net income (loss) of subsidiary	(204,940)	31,233	-	(173,707)
Income tax expense (benefit)	(36,759)	-	-	(36,759)
Net income (loss) and comprehensive income (loss) before equity in net income (loss) of subsidiary	<u>(168,181)</u>	<u>31,233</u>	<u>-</u>	<u>(136,948)</u>
Equity in net income/(loss) of subsidiary	31,233	-	(31,233)	-
Net income (loss) and comprehensive income (loss)	<u>\$ (136,948)</u>	<u>\$ 31,233</u>	<u>\$ (31,233)</u>	<u>\$ (136,948)</u>