PROVIDENCE LIFE ASSURANCE COMPANY (BERMUDA) LTD.
(Incorporated in Bermuda)

Financial Statements
(With Independent Auditor's Report Thereon)

Year Ended December 31, 2022

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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Providence Life Assurance Company (Bermuda) Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Providence Life Assurance Company (Bermuda) Ltd. (the "Company"), which comprise the statement of financial position as at December 31, 2022, the statements of net loss and comprehensive loss, changes in shareholder's equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

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

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 17, 2023

PROVIDENCE LIFE ASSURANCE COMPANY (BERMUDA) LTD.

Statement of Financial Position

December 31, 2022
(Expressed in US Dollars)

		2022		2021
Assets				
Cash and cash equivalents	$	43,301	$	705,724
Investments		420,061		554,846
Premium receivable		278,156		279,400
Reinsurance receivable		107,115		34,977
Policy loans		8,160,830		8,019,824
Segregated accounts assets		237,436,877		270,957,034
Reinsurance recoverable		670,753		628,635
Deferred acquisition costs		691,042		726,268
Deferred tax assets		617,379		510,666
Other assets		308,842		316,955
Total assets	$	248,734,356	$	282,734,329
Liabilities				
Reserves for unreported claims	$	567,000	$	553,000
Policy loan liabilities		8,156,092		8,015,085
Segregated account liabilities		237,436,877		270,957,034
Reinsurance premium payable		210,035		340,844
Unearned premiums		75,539		72,259
Commissions payable		28,531		33,949
Accounts payable and accrued liabilities		240,192		340,622
Total liabilities	$	246,714,266	$	280,312,793
Shareholder's equity				
Share capital - authorized, issued and fully paid common shares of par value $1 each	$	250,000	$	250,000
Contributed surplus		2,034,000		2,034,000
Retained (deficit)/earnings		(263,910)		137,536
Total shareholder's equity	$	2,020,090	$	2,421,536
Total liabilities and shareholder's equity	$	248,734,356	$	282,734,329

Approved and authorised for issue by the Board of Directors

Director

Director

PROVIDENCE LIFE ASSURANCE COMPANY (BERMUDA) LTD.

Statement of Net Loss and Comprehensive Loss

For the year ended December 31, 2022
(Expressed in US Dollars)

	2022	2021
Revenue		
Policy charges and fee income	$ 3,471,563	$ 3,397,307
Investment (loss)/income	(34,785)	7,494
Total revenue	3,436,778	3,404,801
Expenses		
Reinsurance expense	(2,215,727)	(2,214,791)
Deferred acquisition cost and commissions	(389,683)	(388,180)
Policy administration	(220,456)	(199,750)
General and administrative expenses	(1,119,071)	(952,662)
Total expenses	(3,944,937)	(3,755,383)
Net loss	(508,159)	(350,582)
Income Taxes		
Current	–	–
Deferred benefit	106,713	40,021
Total net loss and comprehensive loss	(401,446)	(310,561)

PROVIDENCE LIFE ASSURANCE COMPANY (BERMUDA) LTD.

Statement of Changes in Shareholder's Equity

For the year ended December 31, 2022
(Expressed in US Dollars)

	Share capital	Contributed surplus	Retained earnings/ (deficit)	Total shareholder's equity
December 31, 2020	250,000	2,034,000	448,097	2,732,097
Total comprehensive loss for the year	–	–	(310,561)	(310,561)
December 31, 2021	250,000	2,034,000	137,536	2,421,536
Total comprehensive loss for the year	–	–	(401,446)	(401,446)
December 31, 2022	250,000	2,034,000	(263,910)	2,020,090

PROVIDENCE LIFE ASSURANCE COMPANY (BERMUDA) LTD.

Statement of Cash Flows

For the year ended December 31, 2022
(Expressed in US Dollars)

	2022	2021
Cash flows from operating activities		
Net loss for the year	$ (401,446)	$ (310,561)
Adjustment for:		
Unrealized gains/(loss) on investments	34,785	(7,494)
Changes in:		
Policy Loans	(141,006)	(181,704)
Premium receivable	1,244	(232,923)
Reinsurance receivable	(72,138)	176,900
Reinsurance recoverable	(42,118)	150,239
Deferred acquisition costs	35,226	(30,647)
Deferred tax assets	(106,713)	(40,021)
Other assets	8,113	(60,929)
Provision for unpaid claims and claim expenses	14,000	-
Policy loan liabilities	141,007	181,704
Reinsurance premium payable	(130,809)	118,607
Unearned premiums	3,280	12,793
Commissions payable	(5,418)	(28,215)
Accounts payable and accrued liabilities	(100,430)	(209,287)
Net cash used in operating activities	(762,423)	(461,538)
Investing activities		
Proceeds from sale of investment	100,000	–
Net cash provided by investing activities	100,000	–
Net (decrease)/increase in cash and cash equivalents	(662,423)	(461,538)
Cash and cash equivalents at beginning of year	705,724	1,167,263
Cash and cash equivalents at end of year	$ 43,301	$ 705,724

1. General

Providence Life Assurance Company (Bermuda) Ltd. or "Providence" formerly Pramerica of Bermuda Life Assurance Company Ltd. or "Pramerica" ("the Company") was incorporated under the laws of Bermuda on April 22, 2008 and is licensed as a long-term insurer under the Insurance Act 1978 of Bermuda and amendments thereto (the "Legislation"). The Company was a wholly owned subsidiary of Northstar Group (Bermuda) Ltd. ("Parent Company" or "Northstar"), which is incorporated in Bermuda. The Company has no subsidiaries that require consolidation.

Effective April 14, 2020, the Company reinsured certain contracts issued by Pruco Life Insurance Company ("Pruco Life"), the segregated accounts on a 100% modified coinsurance basis and the policy risk on a 10% coinsurance basis. In accordance with the terms of modified coinsurance agreement, the segregated account assets and liabilities are recorded on the ceding company's (Pruco Life) balance sheet and not by the reinsurer (Providence).

On November 30, 2020 Providence merged with Delaware Life Insurance and Annuity Company (Bermuda) Ltd. ("DLIAC") pursuant to the provisions of Bermuda Companies Act 1981, with Providence being the surviving entity. DLIAC was a wholly owned subsidiary of Delaware Life (Bermuda) Holdings, Inc. ("DL Bermuda Holdings") and was licensed as a class C insurer under the Insurance Act 1978 of Bermuda and amendments thereto (the "Legislation"). DLIAC's principal activities were related to the issuance of private placement variable universal life insurance ("PPVUL") and private placement variable annuities (PPVA") to high net worth clients living outside Bermuda.

Pursuant to the terms of a share purchase agreement dated 10 February 2021, 95% of the shares in Northstar Group (Bermuda) Ltd. were transferred to Alpha Group (Bermuda) Ltd ("Ultimate Parent Company").

The Company writes private placement variable universal life insurance ("PPVUL") and private placement variable annuities ("PPVA") coverages for policy owners who choose to purchase this product in Bermuda other than Bermuda residents. The Company reinsures the mortality risk, that is, the Policy Risk Amount, under these policies with its former affiliate, The Prudential Insurance Company of America ("Prudential Insurance") and other third party-reinsurers. The reinsurance is comprised of both proportional and nonproportional reinsurance. The proportional reinsurance is on a Yearly Renewable Term ("YRT") basis. For each policy covered under this Agreement, the Company reinsures 90% of the policy risk amount related to the first $1,000 of face amount and 100% of the policy risk amount related to face amounts in excess of $1,000. The nonproportional reinsurance will be on a Stop Loss basis. Whenever the aggregate number of claims on the portion retained by the Company under the YRT reinsurance exceeds two in a single calendar year, the reinsurer will reimburse the Company for such excess. Prudential Insurance is rated A+ by A.M. Best and AA- by Standard & Poor's.

2. Basis of preparation

The Company's financial statements for the year ended December 31, 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). For the year ended December 31, 2020, the Company prepared a set of financial statements in accordance with U.S. GAAP. There were no changes to equity noted as a result of this change in financial reporting frameworks and no disclosures were needed as required by IFRS 1.

2.1 Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements were authorized for issue by the Company's Board of Directors on April 17, 2023.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items in the statements of financial position, the segregated accounts assets and liabilities and investments. The statement of financial position has been presented in order of decreasing liquidity.

2. Basis of preparation (continued)

2.3 Functional and presentation currency

The Company's financial statements are presented in United States Dollars, which is also the Company's functional currency.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgment and where estimates are significant to the financial statements include the valuation allowance on deferred tax assets, policy reserves and deferred acquisition costs ("DAC").

3. Summary of significant accounting policies

The financial statements reflect all IFRSs in force as at December 31, 2022, as well as all interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), application of which was mandatory for the 2022 financial year.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

3.1 **New standards, interpretations and amendments to published standards that have been adopted by the Company**

Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors: 'Definition of Material'

These amendments, issued in October 2018, clarify the definition of 'material', and align the definition used in the Conceptual Framework and the standards themselves. These amendments did not have any material impact on the Company's financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards

These amendments, issued in March 2018 update the current conceptual framework with the aim to assist preparers of financial reports to develop consistent accounting policies for transactions. These amendments did not have any material impact on the Company's financial statements.

Annual Improvements to IFRS Standards 2018-2020

These amendments, issued in May 2020, make minor amendments to IFRS 1 'First-time Adoption of IFRS', IFRS 9 'Financial Instruments', IAS 41 'Agriculture' and the Illustrative Examples accompanying IFRS 16 'Leases'. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. These amendments did not have any material impact on the Company's financial statements.

3. Summary of significant accounting policies ***(continued)***

Amendments to IAS 37 – Provisions, contingent liabilities and contingent assets

These amendments, issued in May 2020, specify which costs a company includes when assessing whether a contract will be loss-making. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. These amendments did not have any material impact on the Company's financial statements.

3.2 **Standards, amendments and interpretations to published standards which are not yet effective**

Certain standards, amendments and interpretations to existing standards have been published which are mandatory for the Company's accounting periods beginning on or after 1 January 2023 or later periods but which the Company has not adopted early, as disclosed below.

IFRS 17 – Insurance Contracts

IFRS 17, 'Insurance Contracts, was originally issued in May 2017 and subsequent amendments were issued in June 2020. The standard is effective for annual periods beginning on or after 1 January 2023. The standard will be applied retrospectively, subject to the transitional options provided for in the standard and provides a comprehensive approach for accounting for insurance contracts including their measurement, income statement presentation and disclosure. The Company will continue to assess the impact of the new standard will have on its results and the presentation and disclosure thereof.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which is effective for annual periods beginning on or after 1 January 2018. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It includes new principles around classification and measurement of financial instruments, introduces an impairment model based on expected credit losses (replacing the current model based on incurred losses) and new requirements on hedge accounting. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allows entities which meet certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17 or 1 January 2021, whichever is the earlier. In June 2020, the IASB agreed to extend the temporary exemption in IFRS 4 from applying IFRS 9 to annual reporting periods beginning on or after 1 January 2023. The Company qualifies for, and is making used of, this deferral option. The Company will continue to assess the impact the new standard will have on its results and the presentation and disclosure thereof.

Amendments to IAS 1 – Presentation of Financial Statements

These amendments, issued in January 2020, clarify the existing requirements for classifying liabilities as current or non-current. These amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Company does not expect the impact to be significant.

3.3 **Non-participating investment contract liabilities**

Contracts issued by the Company to its policyholders do not contain significant insurance risk as defined by IFRS 4 Insurance Contracts. Insurance contracts are defined as those containing significant insurance risk, if and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Contracts that do not contain significant insurance risk are classified as investment contracts by the Company. Contracts issued by the Company do not contain any discretionary participation features.

3. Summary of significant accounting policies (continued)

For non-participating investment contracts with an account balance, claims reflect the excess of amounts paid over the account balance released.

Account balances associated with non-participating investment contracts further comprise segregated account liabilities which mirror related underlying segregated account assets. See “Segregated account assets and liabilities” under this note for details.

3.4 Segregated accounts assets and liabilities

Segregated assets represent segregated funds, which are invested for certain policyholders. The assets consist of policyholder directed fund options. The reported fair value by the asset managers are used to estimate the fair value of those assets. The value of interests in these funds is based on the underlying investments that include equities, debt, and other investments. The assets of each account are legally segregated and are generally not subject to claims that arise out of any other business of the Company. Investment risks associated with market value changes are borne by the policyholders. The segregated accounts liabilities are measured in a consistent manner to the segregated accounts assets and are recorded under the liability section of the Balance Sheet. The Company has not made minimum guarantees for any of the accounts.

3.5 Premiums

Premiums received, net of premium loads, are booked to the policyholders' directed separate account fund option.

3.6 Reinsurance premiums

The Company generally reports reinsurance activity on a gross basis. In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding insurance to other insurance and reinsurance companies. Reinsurance treaties do not relieve the Company from its obligations and failure of reinsurers to honor their obligations could result in losses for the Company. The Company regularly evaluates the financial condition of the insurance and reinsurance companies from which it assumes and to which it cedes reinsurance. Consequently, allowances would be established for amounts deemed uncollectible. At December 31, 2022, no allowances were deemed necessary.

3.7 Investments

Investments are considered financial instruments and are classified as fair value through profit or loss (“FVTPL”). The Company determines the classification of its financial assets at initial recognition. These are investments held by the general account of the Company and primarily consist of an investment in a bond fund. These are valued using fair value information provided by the Company’s custodian.

3.8 Cash and cash equivalents

Cash and Cash Equivalents include cash on hand, amounts due from banks, certain money market investments, and other debt issues with maturities of three months or less when purchased.

3.9 Investment income

Investment Income is recognised on an accrual basis and comprised of reinvested dividends and net asset value changes and is recorded in the Investment Income line of the Statement of Net Loss and Comprehensive Loss.

3. Summary of significant accounting policies (continued)

3.10 Policy reserves

The Company reports to the standards required under IFRS 4. The policies contain no general account guarantees; only the Segregated Account Liability is held.

3.11 Policy charges and fee income

Policy charges and fee income represent revenues recognised from PPVUL and PPVA products consisting of policy charges for cost of insurance, policy administration charges and surrender fees charged to policyholders. Fee and other revenues are recognised as revenues in the period in which they are assessed against policyholders unless the fees are designed to compensate for services to be provided in the future.

3.12 Deferred acquisition costs

Costs that are related directly to the successful acquisition of new and renewal insurance business are deferred to the extent such costs are deemed recoverable from future profits. Such DAC primarily includes non-level renewal or trail commissions, costs of policy issuance and underwriting, and certain other expenses that are directly related to successfully negotiated contracts. DAC is amortised using the present value of estimated gross profits expected to be realised over the life of the group of policies, as required per the authoritative guidance.

3.13 Income taxes

The Company elected to be treated as a U.S. domestic insurance company for U.S. federal tax purposes and is therefore, subject to income taxation in the United States. The Company follows the applicable assets and liabilities method for recording income taxes. The Company files a separate U.S. tax return.

3.14 Policy loans

Policy loans are funds provided to policyholders and are carried at the amount of outstanding principal balance plus accrued interest. Policy loans are collateralised by the related insurance policies and do not exceed the net cash surrender value of the policies. The majority of policy loans do not have a stated maturity and the balances and accrued interest are repaid with proceeds from the policyholder’s account balance.

3.15 Risks and uncertainties

The business operations are influenced by many factors, including general economic conditions, governmental monetary and fiscal policies and polices of the Bermuda Monetary Authority. The level of sales of insurance products are influenced by many factors, including general market rates of interest, the strength, weakness and volatility of equity markets and terms and conditions of competing products. The company is also exposed to market risk and mortality/longevity risk. Market volatility may result in increased risks related to death benefits, as well as reduced fee income on variable product assets held in segregated accounts.

4. Investments

The Company’s investment is held in a bond fund. The Company had $34,785 (2021: $7,494 unrealized gains) of unrealized loss on this investment and a realized gain of $Nil (2021: $Nil).

5. Financial risk management

The Company has exposure to the following financial risks from the financial instruments held in the general accounts:

- Credit risk
- Liquidity risk
- Regulatory risk
- Market risk

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from the premium receivables, investment, and cash and cash equivalents. The Company has experienced no past credit losses and has no impaired receivables.

Investments and cash and cash equivalents are mainly placed with approved financial institutions such as corporate account by a Bermuda bank (S&P credit rating: A-) and investment in the bond fund is held in a United States bank (S&P credit rating: A-).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its various account payables.

The Company maintains a level of cash and cash equivalents at bank facilities deemed adequate by the management to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

The Company's maturity profile of the Company's financial liabilities as at the end of the reporting period are short term in nature. There is no contractual interest rate on these financial liabilities.

Regulatory risk

Regulatory risk is the risk that the legal or regulatory environment in which an insurer operates will change or that the tax rulings relevant to the Company's business model may change and create additional loss costs or expenses not anticipated by the insurer in pricing its products. That is, regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those recorded in the financial statements or the Company may not continue in its current form due to amended tax legislation. The Company mitigates this risk through its review of underwriting and loss adjusting practices and regulatory reviews tax legislation, which identifies and minimizes the adverse impact of these risks.

Market risk

Equity price risk

Investments are held for trading and have a fair value of $420,061 (2021: $554,846). This is an investment in a bond fund that exposes the Company to direct equity price risk. An increase in the fair value by 1% would increase the net income and equity for the year by $4,201 (2021: $5,548). A decrease in fair values by the same percentage would have the opposite effect.

5. Financial risk management (continued)

Market risk (continued)

Interest rate risk

Cash and cash equivalents consist of bank balances at an amount of $43,301 (2021: $705,724), which are interest bearing. An increase in market interest rates by 1% would increase the bank balance, net income and the equity for the year by $433 (2021: $7,057). A decrease in market interest rates by the same percentage would have the opposite effect.

Capital management

The Company's policy is to maintain a strong capital base so as to maintain policyholder, creditors and market confidence and to sustain future development of the business. The Company's capital base is structured to exceed regulatory and internal capital targets while maintaining an effective capital structure. The Board of Directors is responsible for devising and implementing the Company's capital plan

6. Fair value measurements

The Company has applied the guidance in IFRS 13, Fair Value Measurement ("IFRS 13"). IFRS 13 establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are defined as follows:

Level 1 – Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date reflecting market transactions.

Level 2 – Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc.) and inputs that are derived from or corroborated by observable market data.

Level 3 – Fair value measurements using significant non-market observable inputs. These included valuations for assets and liabilities that are derived using data, some or all of which is not market observable, including assumptions about risk.

There were no changes in valuation techniques during the year.

The carrying values of cash and cash equivalents, insurance balances receivable, accrued interest income, prepaid expenses, insurance balances payable and accounts payable and accrued expenses approximate their fair values due to the short-term nature of the balances.

The following table presents the Company's investments and segregated accounts, measured at fair value in the statement of financial position and categorised by hierarchy.

(Expressed in US Dollars)

6. Fair value measurements (continued)

December 31, 2022:

	Total $	Level 1 $	Level 2 $	Level 3 $
Cash and cash equivalents	43,301	43,301	–	–
Investments	420,061	420,061	–	–
Segregated accounts assets*	237,436,877	181,238,010	7,884,437	48,314,430
	237,900,239	181,701,372	7,884,437	48,314,430

December 31, 2021:

	Total $	Level 1 $	Level 2 $	Level 3 $
Cash and cash equivalents	705,724	705,724	–	–
Investments	554,846	554,846	–	–
Segregated accounts assets*	270,957,034	198,487,913	17,467,055	55,002,066
	272,217,604	199,748,483	17,467,055	55,002,066

** The segregated account liabilities follow the similar fair value leveling as the segregated account assets.*

There were no transfers between the levels during the financial year.

The valuation approach for fair value assets categorized as Level 2 and Level 3 are generally by using fair values provided by Custodians utilized by the Company for its Segregated Accounts portfolio. These Custodians utilize reputable independent pricing services and valuations provided by investment fund managers. The independent pricing services used by the Company's Custodians obtain actual transaction prices for securities that have quoted prices in active markets. The independent pricing services used by the Company's custodian have their own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker/dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value. Segregated account assets principally includes amounts invested in various funds and are categorized as level 3 and valued largely based on financial statements and inputs provided by third-party asset managers of the respective funds.

7. Segregated accounts

The Company had segregated accounts of $237,436,877 (2021: $270,957,034) as of December 31, 2022.

The aggregate fair value of assets and liabilities, by major investment category, supporting separate accounts follows.

(Expressed in US Dollars)

7. **Segregated accounts** (continued)

Asset Type	2022 $	2021 $
Due from broker	7,505	7,505
Cash and cash equivalents	19,179,615	15,169,130
Fixed income	31,176,243	33,067,509
Equities	102,074,263	111,252,776
Investment in funds	65,550,480	89,821,759
Private placements	14,305,165	15,940,283
Direct investments	5,143,606	5,698,072
	237,436,877	270,957,034

The balances of and changes in the segregated assets and liabilities follows:

	2022 $	1 $
Balance at January 1	270,957,034	277,932,140
Policy charges	(3,046,937)	(3,400,722)
Withdrawals	(9,792,636)	(36,631,739)
Purchases	22,875,051	18,258,111
Sales	(20,426,647)	(18,261,618)
Fair value changes	(23,128,988)	33,060,862
Balance at December 31	237,436,877	270,957,034

8. **Deferred acquisition costs**

DAC is calculated using the following methodology:

- Only commissions in excess of the ultimate commission rates are being amortized (as opposed to all commissions)
- Amortization is done in proportion to the estimated profits.

Assumptions used for future profit projections:

- Separate accounts return 8% per year
- No new premium deposited
- Mortality equal to mortality for reinsurance premium
- 5% lapse per year

The Company had deferred acquisition costs of $691,042 (2021: $726,268) as of December 31, 2022.

	2022 $	2021 $
January 1	726,268	695,621
Deferrals	91,683	91,088
Amortisation	(93,715)	(81,647)
Adjustment to the DAC	(84,542)	(32,201)
Interest	51,348	53,407
Accumulated DAC balance at year end	691,042	726,268

(Expressed in US Dollars)

9. Reserves for unreported claims

The Company had reserves for unreported claims of $567,000 (2021: $553,000) as of December 31, 2022. The reserves for unreported claims are calculated using best estimates. The estimates are made using reinsurance premium as a proxy for mortality.

10. Reinsurance recoverable

The Company's reinsurance recoverable balance of $670,753 (2020: $628,635) represents the ceded policy reserve which is actuarially calculated to estimate the present value of future death benefits payable, assuming that the policyholder dies before the valuation date. These amounts are recoverable from reinsurers on premium paid in advance for the DLIAC PPVUL policies. The reinsurance premium is paid in advance on a policy basis. Therefore at December 31, 2022 there is an average of half a month's worth of premium paid to reinsurers that is for coverage that will occur after year-end. The value of the amounts recoverable from these premiums is calculated using half a month's mortality times the net amount of risk, using the 1980 CSO mortality table.

11. Statutory capital and surplus

Under The Insurance Act 2016 of Bermuda, amendments thereto and related regulations ("The Insurance Act"), the Company is required to prepare Statutory Financial Statements and to file a Statutory Financial Return. The Insurance Act also requires the Company to meet certain minimum capital and surplus requirements. The Company's statutory capital and surplus as at December 31, 2022 of $1,987,000 (2021: $2,388,000) was in excess of the minimum amount required under the Insurance Act. The Company is also required to maintain a minimum liquidity ratio under the Insurance Act. As at December 31, 2022, this minimum liquidity ratio was met.

12. Income taxes

Bermuda

Bermuda does not impose any form of taxation on receipts, dividends, capital gains, gifts or net income. In the event that such taxes are levied, the Company has received an assurance from the Bermuda government to be exempted from such taxes until March 31, 2035.

United States

The Company made an irrevocable election under Section 953(d) of the Internal Revenue Code of 1986 to treat the Company as a domestic insurance company for United States federal income tax purposes. As a result of the "domestic election", the Company is subject to U.S. taxation on its worldwide income as if it were a U.S. corporation.

The following is a summary of the components of the federal income tax expense in the Company's statement of income;

	2022 **$**	**2021** **$**
Income tax benefit		
Current	–	–
Deferred	106,713	40,021
Total income tax benefit	106,713	40,021

(Expressed in US Dollars)

12. Income taxes (continued)

Income taxes attributable to the Company's statements of income are different from the amounts determined by multiplying income before federal income taxes by the expected federal income tax rate of 21%. The following is a summary of the difference between the expected income tax expense that the Company recorded for the year ended December 31, 2022:

	2022 $	2021 $
Income tax benefit		
Expected Income tax expense	106,713	73,622
Permanent Differences	–	(33,601)
Total income tax benefit	106,713	40,021

Net deferred tax assets or liabilities represent the tax effects of temporary difference between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for income tax reporting purposes.

The components of the Company's net deferred tax assets were as follows:

	2022 $	2021 $
Deferred tax assets		
Deferred Acquisition Costs	104,115	163,976
Tax loss carry forwards	513,264	346,690
Total deferred tax assets	617,379	510,666

The Company's net deferred tax assets at December 31, 2022 are comprised of gross deferred tax assets related to Deferred Acquisition Costs and a net operating loss carry forward of $2,444,114 that is subject to an 80% limitation of the Company's taxable income and does not expire.

The Company performs the required recoverability (realisability) test in terms of its ability to realise its recorded net deferred tax assets. In making this determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and recent financial operations. In projecting future taxable income and sources of capital gains, the Company utilises historical and current operating results and incorporates assumptions including the amount of future federal and state pre-tax operating income, the reversal of temporary differences, and the implementation of prudent and feasible tax planning strategies. The Company considers it is probable that the deferred tax asset will be recognized

The Company will file a separate U.S. federal income tax return for the tax year ended December 31, 2022, with tax years 2022, 2021, 2020, 2019, 2018 and 2017 subject to examination by the tax authorities.

At 31 December 2022, the Company had no unrecognized deferred tax assets.

13. Related party transactions

Included within general and administrative expenses are expenses incurred by the Company that are associated with the directors and key management personnel of the Company amounting to $339,940 (2021: $259,449), transaction fees charged by the Parent company for $Nil (2021: $100,000) and management fees charged by the Ultimate Parent Company of $200,000 (2021: $75,000)

At December 31, 2022, there was an amount due to the Ultimate Parent Company of $Nil (2021: $75,000), which is included in accounts payable and accrued liabilities.

14. Subsequent events

The Company has evaluated subsequent events through April 17, 2023, which is the date that the financial statements were available to be issued. No other subsequent events were noted.