

## **GLOBAL ATLANTIC ASSURANCE LIMITED**

(A WHOLLY-OWNED SUBSIDIARY OF GLOBAL ATLANTIC FINANCIAL LIMITED)

### **Financial statements**

**December 31, 2022 (Successor) and 2021 (Successor)**

## Index to Financial Statements

	Page
<b>Report of independent registered public accounting firm</b>	<a href="#"><u>2</u></a>
<b>Financial statements</b>	
Balance sheets as of December 31, 2022 (Successor) and December 31, 2021 (Successor)	<a href="#"><u>5</u></a>
Statements of income for year ended December 31, 2022 (Successor), the eleven months ended December 31, 2021 (Successor) and one month ended January 31, 2021 (Predecessor)	<a href="#"><u>6</u></a>
Statements of comprehensive income (loss) for year ended December 31, 2022 (Successor), the eleven months ended December 31, 2021 (Successor) and one month ended January 31, 2021 (Predecessor)	<a href="#"><u>7</u></a>
Statements of equity for the period from December 31, 2020 (Predecessor) to December 31, 2022 (Successor)	<a href="#"><u>8</u></a>
Statements of cash flows for year ended December 31, 2022 (Successor), the eleven months ended December 31, 2021 (Successor) and one month ended January 31, 2021 (Predecessor)	<a href="#"><u>9</u></a>
<b>Notes to the financial statements</b>	
1. Nature of business	<a href="#"><u>11</u></a>
2. Basis of presentation and significant accounting policies	<a href="#"><u>12</u></a>
3. Investments	<a href="#"><u>24</u></a>
4. Derivative instruments	<a href="#"><u>34</u></a>
5. Fair value disclosure of financial instruments	<a href="#"><u>36</u></a>
6. Insurance intangibles, unearned revenue reserves and unearned front-end loads	<a href="#"><u>44</u></a>
7. Policy liabilities	<a href="#"><u>45</u></a>
8. Reinsurance	<a href="#"><u>45</u></a>
9. Composition of other assets, liabilities, income, insurance expenses and general, administrative and other expenses	<a href="#"><u>48</u></a>
10. Shareholders' equity	<a href="#"><u>49</u></a>
11. Accumulated other comprehensive income (loss)	<a href="#"><u>49</u></a>
12. Income taxes	<a href="#"><u>49</u></a>
13. Dividend restrictions and statutory information	<a href="#"><u>49</u></a>
14. Related party transactions	<a href="#"><u>51</u></a>
15. Commitments and contingencies	<a href="#"><u>53</u></a>
16. Acquisition	<a href="#"><u>53</u></a>
17. Subsequent events	<a href="#"><u>55</u></a>

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of

Global Atlantic Assurance Limited

## INDEPENDENT AUDITOR'S REPORT

### Opinion

We have audited the financial statements of Global Atlantic Assurance Limited (the "Company"), which comprise the balance sheets as of December 31, 2022 (Successor) and 2021 (Successor), and the related statements of income, comprehensive (loss) income, equity, and cash flows for the year ended December 31, 2022 (Successor) and for the eleven months ended December 31, 2021 (Successor), and the one month ended January 31, 2021 (Predecessor), and the related notes to the 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 (Successor) and 2021 (Successor), and the results of its operations and its cash flows for the year ended December 31, 2022 (Successor), and for the eleven months ended December 31, 2021 (Successor), and the one month ended January 31, 2021 (Predecessor), in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 issued.

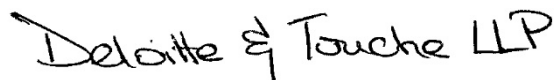
## Auditor's Responsibilities for the Audit of the Financial Statements

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.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

April 24, 2023

# GLOBAL ATLANTIC ASSURANCE LIMITED

## BALANCE SHEETS

	December 31,	
	2022	2021
(\$ in millions, except share data)	Unaudited	Audited
	Successor	Successor
<b>Assets</b>		
<b>Investments:</b>		
Fixed maturity securities, available-for-sale, at fair value (amortized cost: \$7,089 and \$8,020, respectively)	\$ 5,718	\$ 7,953
Fixed maturity securities, trading, at fair value (amortized cost: \$2,273 and \$2,323, respectively)	1,571	2,269
Fixed maturity securities, held-to-maturity, at amortized cost	8	12
Mortgage and other loan receivables	1,716	1,290
Derivative assets	—	555
<b>Total investments</b>	<b>\$ 9,013</b>	<b>\$ 12,079</b>
Cash and cash equivalents	197	173
Accrued investment income	78	74
Reinsurance recoverable	2,365	2,394
Value of business acquired	63	147
Other assets	390	39
<b>Total assets</b>	<b>\$ 12,106</b>	<b>\$ 14,906</b>
<b>Liabilities</b>		
<b>Policy liabilities:</b>		
Contractholder deposit funds and other policy liabilities	9,822	10,414
<b>Total policyholder liabilities</b>	<b>\$ 9,822</b>	<b>\$ 10,414</b>
Funds withheld payable at interest	1,735	2,460
Derivative Liabilities	1,480	—
Accrued expenses and other liabilities	33	23
Reinsurance liabilities	51	33
<b>Total liabilities</b>	<b>\$ 13,121</b>	<b>\$ 12,930</b>
<b>Shareholder's equity</b>		
Common stock, \$1 par value, 370,000 shares authorized, 370,000 shares issued and outstanding, respectively	\$ —	\$ —
Additional paid-in capital	2,092	1,908
Retained earnings	(1,751)	125
Accumulated other comprehensive income (loss)	(1,357)	(57)
<b>Total equity</b>	<b>\$ (1,016)</b>	<b>\$ 1,976</b>
<b>Total liabilities and equity</b>	<b>\$ 12,106</b>	<b>\$ 14,906</b>

See accompanying notes to financial statements.

# GLOBAL ATLANTIC ASSURANCE LIMITED

## STATEMENTS OF INCOME

	Year ended December 31,	Eleven months ended December 31,	One month ended January 31,
	2022	2022	2021
(\$ in millions)	Unaudited	Audited	Audited
	Successor	Successor	Predecessor
<b>Revenues</b>			
Premiums	\$ 30	\$ 29	\$ 2
Net investment income	289	180	19
Net investment gains (loss)	(1,953)	116	(59)
<b>Total revenues</b>	<b>\$ (1,634)</b>	<b>\$ 325</b>	<b>\$ (38)</b>
<b>Benefits and expenses</b>			
Policy benefits and claims	143	158	17
Amortization of policy acquisition costs	84	34	—
Insurance expenses	8	2	—
General, administrative and other expenses	7	5	1
<b>Total benefits and expenses</b>	<b>\$ 242</b>	<b>\$ 199</b>	<b>\$ 18</b>
<b>Net income (loss)</b>	<b>\$ (1,876)</b>	<b>\$ 126</b>	<b>\$ (56)</b>

See accompanying notes to financial statements.

# GLOBAL ATLANTIC ASSURANCE LIMITED

## STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Year ended	Eleven months ended	One month ended
	December 31,	December 31,	January 31,
	2022	2021	2021
(\$ in millions)			
	<i>Successor</i>	<i>Successor</i>	<i>Predecessor</i>
<b>Net income (loss)</b>	\$ (1,876)	\$ 126	\$ (56)
<b>Other comprehensive income (loss)</b>			
Unrealized gains (losses) on securities and other investments for the period	(1,377)	(61)	(5)
Less: reclassification adjustment for gains included in net income	(77)	(3)	1
Other comprehensive income (loss)	\$ (1,300)	\$ (58)	\$ (6)
<b>Comprehensive income (loss)</b>	\$ (3,176)	\$ 68	\$ (62)

See accompanying notes to financial statements.

# GLOBAL ATLANTIC ASSURANCE LIMITED

## STATEMENTS OF EQUITY

	Common stock and Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Total shareholder's equity
(\$ in millions)				
<b>Balance as of December 31, 2020, Predecessor</b>	<b>\$ 446</b>	<b>\$ 874</b>	<b>\$ 411</b>	<b>\$ 1,731</b>
Net income	—	(55)	—	(55)
Other comprehensive loss	—	—	(5)	(5)
<b>Balance as of January 31, 2021, Predecessor</b>	<b>\$ 446</b>	<b>\$ 819</b>	<b>\$ 406</b>	<b>\$ 1,671</b>
<b>Balance as of February 1, 2021, Successor</b>	<b>\$ 1,708</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,708</b>
Net income	—	126	—	126
Other comprehensive income	—	—	(58)	(58)
Capital contributions	200	—	—	200
<b>Balance as of December 31, 2021, Successor</b>	<b>\$ 1,908</b>	<b>\$ 126</b>	<b>\$ (58)</b>	<b>\$ 1,976</b>
Net income (loss)	—	(1,876)	—	(1,876)
Other comprehensive income (loss)	—	—	(1,300)	(1,300)
Capital contributions	184	—	—	184
<b>Balance as of December 31, 2022, Successor</b>	<b>\$ 2,092</b>	<b>\$ (1,750)</b>	<b>\$ (1,358)</b>	<b>\$ (1,016)</b>

*See accompanying notes to financial statements.*



STATEMENTS OF CASH FLOWS

	Year ended December 31, 2022	Eleven months ended December 31, 2021	One month ended January 31, 2021
(\$ in millions)			
	Successor	Successor	Predecessor
<b>Cash flows from operating activities</b>			
<b>Net income</b>	\$ (1,876)	\$ 126	\$ (56)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>			
Changes in fair value of trading fixed maturity securities and mortgage loans	649	54	—
Change in fair value of equity fixed maturity securities and other investments	—	—	—
Net investment (gains) losses	(62)	(82)	(6)
Change in fair value of derivatives and other derivative-related activity	1,369	(57)	66
Net amortization and depreciation	122	68	(3)
Interest credited to policyholder account balances less policy fees	24	100	13
Deferred income tax (benefit) expense	—	—	—
<b>Changes in operating assets and liabilities:</b>			
Reinsurance transactions and acquisitions, net of cash provided (used)	—	—	—
Change in premiums, notes receivable and rein recoverable, net of rein premiums	34	115	2
Change in deferred acquisition costs	—	—	—
Change in value of business acquired	—	—	—
Change in accrued investment income	(2)	(1)	1
Change in policyholder liabilities and accruals, net	(5)	17	4
Other	(15)	16	—
<b>Net cash provided by operating activities</b>	<b>\$ 238</b>	<b>\$ 355</b>	<b>\$ 22</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposals of available-for-sale fixed maturities securities	422	2,547	6
Proceeds from maturities of available-for-sale fixed maturities securities	414	549	35
Proceeds from disposals of trading fixed maturities securities	249	2,113	—
Proceeds from maturities of trading fixed maturities securities	7	3	—
Proceeds from mortgages sold, matured or collected	187	138	92
Proceeds from trading mortgages sold, matured or collected	—	19	—
Proceeds from disposals of other investments	136	194	4
Purchase of available-for-sale fixed maturities securities	(667)	(3,256)	(140)
Purchase of trading fixed maturities securities	(193)	(2,192)	—

# GLOBAL ATLANTIC ASSURANCE LIMITED

## STATEMENTS OF CASH FLOWS

	Year ended December 31, 2022	Eleven months ended December 31, 2021	One month ended January 31, 2021
(\$ in millions)			
	<i>Successor</i>	<i>Successor</i>	<i>Predecessor</i>
Purchase of mortgages	\$ (623)	\$ (799)	\$ (102)
Purchase of other investments	(335)	—	—
Other investing activities-net	3	(6)	3
<b>Net cash used in investing activities</b>	<b>\$ (400)</b>	<b>\$ (690)</b>	<b>\$ (102)</b>
<b>Cash flows from financing activities</b>			
Reinsurance transactions, net of cash provided (used)	10	329	—
Additions to contractholder deposit funds	256	42	—
Withdrawals from contractholder deposit funds	(264)	(129)	(4)
Capital contributions	184	200	—
Dividends paid	—	—	—
Other financing activities-net	—	—	—
<b>Net cash provided by financing activities</b>	<b>186</b>	<b>442</b>	<b>(4)</b>
<b>Net change in cash and cash equivalents</b>	<b>24</b>	<b>107</b>	<b>(84)</b>
Cash, and cash equivalents, beginning of period	173	66	150
<b>Cash and cash equivalents, end of period</b>	<b>\$ 197</b>	<b>\$ 173</b>	<b>\$ 66</b>
<b>Supplemental cash flow information</b>			
Income taxes paid	—	—	—
<b>Non-cash transactions</b>			
Available-for-sale fixed maturity securities acquired through reinsurance agreements	151	2,208	—
Trading fixed maturity securities acquired through reinsurance agreements	—	2,208	—
Policyholder liabilities and accruals settled through fund agreements	805	—	—
Contractholder deposit funds acquired through reinsurance agreements	\$ 163	\$ 4,782	\$ —

**Notes to the Financial Statements**

---

**1. Nature of business**

**GLOBAL ATLANTIC ASSURANCE LIMITED**, or “GAAL” or “the Company”, is a licensed reinsurer and wholly-owned subsidiary of Global Atlantic Financial Limited, or “GAFL”. GAFL is an indirect wholly-owned subsidiary of The Global Atlantic Financial Group LLC, or “TGAFG” a Bermuda company. Under Bermuda’s Insurance Act of 1978, as amended, the Company is registered as a Class E insurer. The Company has issued Funding Agreements (Guaranteed Investment Contracts, or “GIC”), Synthetic Guaranteed Investment Contracts, or “Synthetic GIC,” to an affiliated counterparty and assumed through reinsurance Whole Life (“WL”) and other assumed life insurance where mortality risk is retained by the ceding company, and mortality risk related to life blocks from non-affiliated counterparties.

**KKR acquisition of Global Atlantic Financial Group Limited**

On February 1, 2021, KKR & Co. Inc., or together with its subsidiaries, “KKR,” completed the acquisition of the Company’s ultimate parent, GAFG, by Magnolia Parent LLC (“Magnolia”), a KKR subsidiary, as contemplated by the Agreement and Plan of Merger, dated July 7, 2020 (as amended, the “Merger Agreement”), by and among GAFG, Global Atlantic Financial Life Limited, or “GAFL”, Magnolia, Magnolia Merger Sub Limited (“Merger Sub”), LAMC LP, and Goldman Sachs & Co. LLC, solely in its capacity as the equity representative, referred to here-in as the “KKR Acquisition.” The total purchase price for the transaction was \$4.7 billion. See Note 19—“Acquisition” for additional information.

**Coronavirus Disease 2019 and related matters**

The novel strain of coronavirus (“COVID-19”) has caused, and continues to cause in certain cases, severe disruptions to the U.S. and global economies. The outbreak of COVID-19 and the actions taken in response have had far reaching impact on the U.S. and global economies, contributing to significant volatility in the financial markets, resulting in increased volatility in currencies, interest rates, and equity prices. Shutdowns in some locations are causing furloughs and layoffs in the labor market. Although a number of vaccines for COVID-19 have been developed and are in the process of being deployed in certain countries, including the United States, the timing for widespread vaccination and immunity is uncertain, and these vaccines may be less effective against new mutated strains of the virus that have started to spread globally.

Given the ongoing nature of the pandemic, at this time the Company cannot reasonably predict the magnitude of the ultimate impact that COVID-19 will have on its business, financial performance and operating results. Global Atlantic believes COVID-19’s adverse impact on its business, financial performance and operating results will be significantly driven by a number of factors that it is unable to predict or control, including, for example: the severity and duration of the pandemic; the pandemic’s impact on the U.S. economy; the timing, scope and effectiveness of additional governmental responses to the pandemic; the timing and speed of economic recovery, including the availability and distribution of treatments and vaccines for COVID-19; and the negative impact on the Company’s policyholders, vendors and other business partners that may indirectly adversely affect the Company.

Bermuda, U.S Federal, state, and local governments and governmental agencies have taken several actions attempting to cushion the economic fallout. In the U.S, it includes the Coronavirus Aid, Relief, and Economic Security Act, or “CARES Act,” signed into law at the end of March 2020. Please refer to Note 2 —“Significant accounting policies and practices” to our financial statements for additional information on regulations impacting the Company under the CARES Act.

## Notes to the Financial Statements

**2. Basis of presentation and significant accounting policies****Basis of presentation**

Upon the acquisition, the Company established a new accounting basis, applying push-down accounting to reflect the Company's assets and liabilities at fair value as of the acquisition date, and recognizing value of business acquired ("VOBA") as the difference between the carrying value of the purchased in-force insurance contract liabilities at the time of the business combination and the estimated fair value of insurance and reinsurance contracts. No goodwill was recognized. In addition, the Company conformed its accounting policies and procedures to those of its new ultimate parent, KKR.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or "U.S. GAAP." The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities as of the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Amounts based on such estimates involve numerous assumptions subject to varying and potentially significant degrees of judgment and uncertainty, particularly related to the future performance of the underlying business. Actual experience could materially differ from these estimates and assumptions.

The Company believes most significant estimates are those used in determining valuation of policyholder liabilities, valuation of derivatives, and valuation and impairment of investments.

**Significant accounting policies**

The following are the Company's significant accounting policies with references to notes providing additional information on such policies:

Accounting policy	Note
Investments	3, 4, and 5
Investment impairment	3 and 5
Derivative instruments	4, 5, and 7
Policy liabilities	5 and 7
Reinsurance	8

**Investments**

In the normal course of business, the Company enters into transactions involving various types of investments.

Investments include the following: U.S. government and agency obligations; commercial mortgage-backed securities, or "CMBS," residential mortgage-backed securities, or "RMBS," collateralized loan obligations, or "CLOs," and all other structured securities (consisting primarily of asset-backed securities, or "ABS," and collateralized bond obligations, or "CBOs,") or together, "structured securities;" corporate bonds; state and political subdivision obligations; foreign government obligations; equity securities; mortgage and other loan receivables; and other non-derivative investments.

**Notes to the Financial Statements**

---

***Available-for-sale fixed maturity securities***

The Company primarily accounts for its fixed maturity securities (including bonds, structured securities and redeemable preferred stock) as available-for-sale ("AFS"). AFS fixed maturity securities are generally recorded on a trade-date basis and are carried at fair value. Impairment associated with AFS fixed maturity securities is recognized as an allowance for credit losses. The allowance for credit losses is established either by a charge to net investment losses in the statements of income, for securities identified as credit impaired after purchase, or by a gross-up recognition of an initial allowance for purchased credit deteriorated ("PCD") securities.

PCD securities are those purchased by the Company that were assessed at acquisition as having experienced a more-than-insignificant deterioration in credit quality since their origination. The Company considers an AFS fixed maturity security to be PCD if there are indicators of a credit loss at the acquisition date or, in the case of structured securities, if there is a significant difference between contractual cash flows and expected cash flows at acquisition. PCD securities also include those AFS fixed maturity securities previously held by the Company that were similarly assessed at the time of the GA acquisition. The initial amortized cost for a PCD security equals the purchase price plus the initial allowance for credit losses. The initial allowance for credit losses is determined using a discounted cash flow method based on the best estimate of the present value of cash flows expected to be collected. After purchase, the accounting for a PCD security is consistent with that applied to all other securities.

Unrealized gains and losses on AFS fixed maturity securities, net of tax and insurance intangible amortization, are reported in accumulated other comprehensive income in the balance sheets. Realized investment gains and losses are recognized on a first-in first-out basis and are reported in net investment losses in the statements of income. The amortized cost of fixed maturity securities is adjusted for impairment charge-offs, amortization of premiums and accretion of discounts. Such amortization and accretion is calculated using the effective yield method and included in net investment income in the statements of income.

For structured securities, the Company recognizes interest income using a constant effective yield based on estimated cash flows generated from internal models utilizing interest rate, default and prepayment assumptions. Effective yields for structured securities that are not of high credit quality are recalculated and adjusted prospectively based on changes in expected undiscounted future cash flows, after consideration of any appropriate recognition or release of an allowance for credit losses. For structured securities that are of high credit quality, effective yields are recalculated based on payments received and updated prepayment expectations, and amortized cost is adjusted to the amount that would have existed had the new effective yield been applied since acquisition with a corresponding charge or credit to net investment income. Prepayment fees are recorded when earned in net investment income in the statements of income.

The Company generally suspends accrual of interest for securities that are more than 90 days past due and reverses any related accrued interest to net investment income in the statements of income. When a security is in non-accrual status, coupon payments are recognized as interest income as cash is received, subject to consideration as to the overall collectibility of the security. A security is returned to accrual status when the Company determines that the collection of amounts due is probable. The allowance for credit losses excludes accrued interest from the amortized cost basis for which losses are estimated.

**Notes to the Financial Statements**

---

***Trading fixed maturity securities***

The Company accounts for certain fixed maturity securities as trading at acquisition, based on intent or via the election of the fair value option. Trading securities are generally recorded on a trade-date basis and are carried at fair value, with realized and unrealized gains and losses reported in net investment-related gains (losses) in the statements of income. Interest income from these securities is reported in net investment income. Trading securities, which are primarily used to match asset and liability accounting, back funds withheld payable at interest where the investment performance is ceded to reinsurers under the terms of the respective reinsurance agreements.

***Held-to-maturity fixed maturity securities***

The Company accounts for certain fixed maturity securities as held-to-maturity, or “HTM,” at acquisition, based on the intent and ability to hold those securities to maturity. HTM securities are carried at amortized cost. The amortized cost of HTM securities is adjusted for OTTI, amortization of premiums and accretion of discounts. Such amortization and accretion is calculated using the effective yield method and included in net investment income in the statements of income. Interest income from these securities is reported in net investment income in the statements of income.

***Mortgage and other loan receivables***

The Company purchases participations in mortgage and other loan receivables, and these loans are carried at cost, less the allowance for credit losses and as adjusted for amortization/accretion of premiums/discounts. The allowance for credit losses is established either by a charge to net investment losses in the statements of income or, for PCD mortgage and other loan receivables, by a gross-up recognition of the initial allowance in the balance sheets.

PCD mortgage and other loan receivables are those purchased by the Company that were assessed at acquisition as having experienced a more-than-insignificant deterioration in credit quality since their origination. PCD mortgage and other loan receivables also include those mortgage and other loan receivables previously held by the Company that were similarly assessed at the time of the KKR Acquisition. The initial amortized cost for a PCD mortgage or other loan receivable equals the purchase price plus the initial allowance for credit losses. The initial allowance for credit losses is determined using a method consistent with that used for other similar loans. See further discussion of allowance methods below. After purchase, the accounting for a PCD mortgage or other loan receivable is consistent with that applied to all other mortgage and other loan receivables.

Loan premiums or discounts are amortized or accreted using the effective yield method. Interest income is accrued on the principal balance of each loan based on its contractual interest rate. The accrual of interest is generally suspended when the collection of interest is no longer probable or the collection of any portion of principal is doubtful. The Company generally suspends accrual of interest for loans that are more than 90 days past due and reverses any related accrued interest to net investment income in the statements of income. When a loan is in non-accrual status, coupon payments are generally recognized as interest income as cash is received, subject to consideration as to the overall collectibility of the loan. A loan is returned to accrual status when the Company determines that the collection of amounts due is probable. The allowance for credit losses excludes accrued interest from the amortized cost basis for which losses are estimated.

**Notes to the Financial Statements**

---

***Funds withheld receivable at interest***

Funds withheld at interest represents a receivable or payable for amounts contractually withheld by the ceding company in accordance with modified coinsurance and funds withheld coinsurance agreements. Generally, assets equal to statutory reserves are withheld and legally owned by the ceding company. As the reinsurer, we are subject to the investment performance of these assets. Although we do not hold the underlying investments in the funds withheld at interest, in each instance the ceding company has hired a manager to manage the withheld assets in accordance with our investment guidelines and allocation decisions. In the event of a ceding company's insolvency, we would need to assert a claim on the assets supporting its reserve liabilities. However, the risk of loss to us is mitigated by our ability to offset amounts we owe the ceding company for claims or allowances against amounts owed to us from the ceding company.

Funds withheld receivable at interest include the following: AFS fixed maturity securities, held to maturity securities, mortgage and other loan receivables, policy loans, other investments and derivative instruments.

**Cash, and cash equivalents**

Cash and cash equivalents in the balance sheets generally include short-term highly liquid investments with a maturity of three months or less from the date of acquisition. Amounts included are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

**Derivative instruments**

Derivatives are instruments that derive their values from underlying asset prices, indices, foreign exchange rates, reference rates and other inputs or a combination of these factors. Derivatives may be privately negotiated contracts, which are usually referred to as over-the-counter ("OTC") derivatives, or they may be listed and traded on an exchange ("exchange-traded"). The Company's derivative instruments are primarily used to hedge interest rate risk. Where certain criteria are met, some of these hedging arrangements may achieve hedge accounting.

Derivative instruments are recognized at estimated fair value in either funds withheld receivable at interest, or funds withheld payable at interest in the balance sheets, with changes in fair value recorded in net investment-related gains (losses) in the statements of income. Where certain qualifying criteria are met, some derivative instruments are designated as accounting hedges and are recognized at estimated fair value in derivative assets or derivative liabilities in the balance sheets. For derivative instruments designated as cash flow hedges, changes in fair value are initially recognized in accumulated other comprehensive income (loss) in the balance sheets and subsequently reclassified to the statements of income when the hedged item affects earnings, in the same line item where the hedged item is reported.

Derivative receivables and payables with a counterparty that are subject to an International Swaps and Derivatives Association Master Agreement ("ISDA") or other similar agreement that provides a legal right of setoff, are presented at their net amounts. Where the legal right of setoff exists, the Company also offsets the fair value of cash collateral received or posted under an ISDA, or other similar agreement with a counterparty, against the related derivative balances as appropriate.



**Notes to the Financial Statements**

---

The Company's synthetic GICs are accounted for as derivatives. A synthetic GIC is a contract that simulates the performance of a traditional GIC through the use of financial instruments. A key difference between a synthetic GIC and a traditional GIC is that the purchaser retains ownership of the assets underlying the synthetic GIC. The fair values of derivatives that are synthetic GICs are primarily based on the fair value of the underlying investments. The fair values of these securities are determined using quoted market prices in active markets or other observable inputs to pricing. Synthetic GICs function similar to total return swaps. These derivatives are recognized in either derivative assets or derivative liabilities in the balance sheets and in net investment gains (losses) in the statements of income.

**Investment impairment*****Available-for-sale fixed maturity securities***

One of the significant estimates related to AFS securities is the evaluation of those investments for credit losses. The evaluation of investments for credit losses is a quantitative and qualitative quarterly process that is subject to risks and uncertainties and involves significant estimates and judgments by management. Changes in the estimates and judgments used in such analysis can have a significant impact on the statements of income. Considerations relevant to the evaluation of credit losses may include the severity of any loss position, as well as changes in market interest rates, changes in business climate, management changes, litigation, government actions, and other similar factors that may impact an issuer's ability to meet current and future principal and interest obligations. Indicators of credit impairment may also include changes in credit ratings, the frequency of late payments, pricing levels and deterioration in any, or a combination of, key financial ratios, financial statements, revenue forecasts and cash flow projections.

For AFS fixed maturity securities in an unrealized loss position, the Company first considers the intent to sell a security, or whether it is more-likely-than-not that it will be required to sell the security, before the recovery of its amortized cost. If the Company intends to sell an AFS fixed maturity security with an unrealized loss or it is more-likely-than-not that it will be required to sell an AFS fixed maturity security with an unrealized loss before recovery of its amortized cost basis, the amortized cost is written down to fair value and a corresponding charge is recognized to net investment losses.

For AFS fixed maturity securities in an unrealized loss position that the Company does not intend to sell, and will not be required to sell, the Company bifurcates the impairment into two components: credit impairment and non-credit impairment. Credit impairments are measured as the difference between the security's cost or amortized cost and its estimated recoverable value, which is the present value of its expected future cash flows discounted at the current effective interest rate. The estimated recoverable value is subject to a floor equal to the fair value of the security. The remaining difference between the security's fair value and the recoverable value, if any, is the non-credit impairment. Credit impairments are recognized in the allowance for credit losses on AFS fixed maturity securities, which is established via a charge to net investment losses in the statements of income, and non-credit impairments are charged to accumulated other comprehensive income in the balance sheets.

In determining the estimated recoverable value, the review of expected future cash flows for structured securities includes assumptions about key systemic risks (e.g., unemployment rates, housing prices) and loan-specific information (e.g., delinquency rates, loan-to-value ratios). Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third parties, along with assumptions and judgments about the future performance of the underlying collateral. For corporate and government bonds the recoverable value is determined using cash flow estimates that consider facts and circumstances relevant to the security and the issuer, including overall financial strength and secondary sources of repayment as well as pending restructuring or disposition of assets. Where information for such cash flow estimates is limited or deemed not reliable, fair value is considered the best estimate of the recoverable value.



**Notes to the Financial Statements**

---

In periods subsequent to the initial recognition of an allowance for credit losses on a fixed maturity security, whether for a PCD security or a security impaired since purchase, the Company continues to monitor credit loss expectations. Deterioration in the estimated recoverable value of a credit impaired security is recognized as an addition to the allowance for credit losses, as limited by the amount by which the security's fair value is less than amortized cost. Improvements in the estimated recoverable value of a credit impaired security or improvements in the fair value of a credit impaired security that limit the amount of the allowance result in reductions in the allowance for credit losses, which are recognized as a credit to net investment gains in the statements of income.

Amounts are charged off against the allowance for credit losses when deemed uncollectible or when the Company determines that it intends to sell, or more likely than not will be required to sell, the security. Charge-offs are reflected as a decrease in the allowance and a direct write down in the amortized cost of the security. If the Company recovers all or a portion of an amount previously written off on a credit impaired security, the recovery is recognized as a realized investment gain.

***Mortgage and other loan receivables***

The Company updates its estimate of the expected credit losses on its investments in mortgage and other loan receivables each quarter. For loans that share similar risk characteristics, expected credit losses are measured on a pool basis.

For commercial mortgage loans, the current expected credit losses are estimated using a model that evaluates the probability that each loan will default and estimates the amount of loss given the occurrence of such a default over the life of each loan in the portfolio. The model incorporates historical and current data on the relevant property market and projects potential future paths for each loan's collateral, considering both the net income to be generated by the collateral real estate and its market value. The model considers how macroeconomic forecasts (such as gross domestic product, unemployment, and interest rates) influence commercial real estate market factors (including vacancy rates, rental and income growth rates, property value changes), and in turn how commercial real estate market conditions, in combination with loan specific information (including debt service coverage and loan to value), drive commercial mortgage loan credit risk.

For residential mortgage loans and consumer loans, the current expected credit losses are primarily estimated using a discounted cash flow model. The model considers loan-specific information as well as current, historical and forecasted data relevant to the respective loans, including home prices, interest rates and unemployment. Expected cash flows are projected for each loan and are discounted using the effective interest rate of the respective loan. Any shortfalls between the discounted cash flows and the amortized cost of each individual loan are aggregated to determine the total allowances on the residential mortgage loan and consumer loan portfolios. For certain residential mortgage loans secured by single-family rental properties, current expected credit losses are determined using a model consistent with that described above for commercial mortgage loans.

With regard to the use of forecasts in the determination of the Company's current expected credit losses, the reversion of forecasts to historical data is based on reversion dynamics that depend on the specific variable and its interaction with the other parameters of the respective model; however, the forecasts generally tend to revert to a long-term equilibrium trend within two to three years from the forecast start date.

For the investment in other loan receivables, a variety of methodologies are used to estimate the respective current expected credit losses. These methodologies consider the terms specific to each loan, including the value of any collateral, and evaluate the risk of loss over the life of these loans.

## Notes to the Financial Statements

---

The Company also assesses and measures an allowance for credit losses arising from off-balance sheet commitments, including loan commitments, that are not unconditionally cancellable by the Company. This allowance for credit losses for off-balance sheet commitments is determined using methods consistent with those used for the associated mortgage and other loan receivable class, as described above, and is recognized in other liabilities in the balance sheets, since there is no funded asset for the committed amount.

When all or a portion of a loan is deemed uncollectible, the uncollectible portion of the carrying amount of the loan is charged off against the allowance. If the Company recovers all or a portion of an amount previously written off on a credit impaired loan, the recovery is recognized as a realized investment gain.

### **Deferral and amortization of certain revenues and expenses**

#### ***Deferrals***

Deferred policy acquisition costs, or "DAC," in the balance sheets consist of commissions and other costs that are directly related to the successful acquisition of new or renewal life insurance or annuity contracts.

Value of business acquired ("VOBA") represents the difference between the carrying value of the purchased in-force insurance contract liabilities at the time of the business combination and the estimated fair value of insurance and reinsurance contracts. VOBA can be either positive or negative. Positive VOBA is recorded in insurance intangibles. Negative VOBA is recorded in the same financial statement line in the balance sheets as the associated reserves.

Deferred revenue liability, or "DRL," represents unearned premium on certain reinsurance contracts (e.g., Monthly Renewable Term). DRL is included in contractholder deposit funds and other policyholder liabilities in the balance sheets.

#### ***Amortization***

VOBA and DRL are amortized straight line over the life of the contracts.

### **Policyholder liabilities**

Policyholder liabilities, or collectively, "reserves," are the portion of past premiums or assessments received that are set aside to meet future policy and contract obligations as they become due. Interest accrues on these reserves and on future premiums, which may also be available to pay for future obligations. The Company establishes reserves to pay future policyholder benefits, claims, and certain expenses for its life policies and annuity contracts.

Reserves are estimates based on models that include many actuarial assumptions and projections. These assumptions and projections, which are inherently uncertain, involve significant judgment, including assumptions as to the levels and/or timing of premiums, benefits, claims, expenses, interest credits, investment results (including equity market returns), mortality, longevity, and persistency.

The assumptions on which reserves are based are intended to represent an estimation of experience for the period that policyholder benefits are payable. The adequacy of these reserves and the assumptions underlying those reserves are reviewed at least annually. The Company cannot, however, determine with precision the amount or the timing of actual policyholder benefit payments. If actual experience is better than or equal to the assumptions, then reserves would be adequate to provide for future policyholder benefits and expenses. If experience is worse than the assumptions, additional

## Notes to the Financial Statements

---

reserves may be required to meet future policy and contract obligations. This would result in a charge to the Company's net income during the period in which excess policyholder benefits are paid or an increase in reserves occurs.

### ***Guaranteed investment contracts***

GICs are non-life contingent annuities which are accounted for as financial instruments. The issuer is contractually obligated to repay the principal and specified interest guaranteed to the purchaser. The liabilities are recorded in contractholder deposit funds and other policyholder liabilities in the balance sheets.

### ***Traditional and universal life***

Contractholder deposit reserves for certain assumed blocks of life reinsurance policies where mortality risk is retained by the ceding company are accounted for as investment-type contracts. A net liability (consisting of benefit reserve less DAC) is established at inception and amortized under the constant yield method.

### ***Outstanding claims***

Outstanding claims include amounts payable relating to in course of settlement and incurred but not reported claim liabilities. In course of settlement claim liabilities are established for policies when the Company is notified of the death of the policyholder but the claim has not been paid as of the reporting date. Incurred but not reported claim liabilities are determined using studies of past experience and are estimated using actuarial assumptions of historical claims expense, adjusted for current trends and conditions. These estimates are continually reviewed and the ultimate liability may vary significantly from the amounts initially recognized, which are reflected in net income in the period in which they are determined. Changes in policyholder and contract claims are recorded in policy benefits and claims in the statements of income.

### **Reinsurance**

Consistent with the overall business strategy, the Company assumes certain policy risks written by other insurance companies on a coinsurance, funds withheld coinsurance, or automatic monthly renewable term basis. Reinsurance accounting is applied for ceded and assumed transactions when risk transfer provisions have been met. To meet risk transfer requirements, a long-duration reinsurance contract must transfer mortality or morbidity risks, and subject the reinsurer to a reasonable possibility of a significant loss. Those contracts that do not meet risk transfer requirements are accounted for using deposit accounting.

With respect to ceded reinsurance, the Company values reinsurance recoverables on reported claims at the time the underlying claim is recognized in accordance with contract terms. For future policyholder benefits, the Company estimates the amount of reinsurance recoverables based on the terms of the reinsurance contracts and historical reinsurance recovery information. The reinsurance recoverables are based on what the Company believes are reasonable estimates and the balance is reported as an asset in the balance sheets. However, the ultimate amount of the reinsurance recoverable is not known until all claims are settled.

Reinsurance contracts do not relieve the Company from its obligations to policyholders, and failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for expected credit losses, via a charge to policy benefits and claims in the statements of income. The Company's funds withheld receivable, funds withheld payable at interest at interest and reinsurance recoverable assets are reviewed for expected credit losses by considering credit ratings for

## Notes to the Financial Statements

---

each reinsurer, historical insurance industry specific default rate factors, rights of offset, expected recovery rates upon default and the impact of other terms specific to the reinsurance arrangement.

For funds withheld and modified coinsurance agreements, the Company has the right to receive or obligation to pay the total return on assets supporting the funds withheld receivable at interest or funds withheld payable at interest. This indirectly exposes the Company to the credit risk of the underlying assets. As a result, funds withheld coinsurance and modified coinsurance agreements are viewed as total return swaps and treated as embedded derivatives. Embedded derivatives are required to be separated from the host contracts and measured at fair value with changes in fair value recognized in net income. Generally, the embedded derivative is measured as the difference between the fair value of the underlying assets and the carrying value of the host contract at the balance sheet date. The fair value of the embedded derivative is included in the funds withheld receivable at interest or the funds withheld payable at interest on the balance sheets. Changes in the fair value of the embedded derivative are reported in operating activities on the statements of cash flows.

### Recognition of insurance revenue and related benefits

Premiums related to term life insurance contracts and payout contracts with life contingencies are recognized in premiums in the statements of income when due from the contractholders.

Amounts received as payment for investment-type contracts are reported as deposits to contractholder account balances and recorded in contractholder deposit funds and other policyholder liabilities in the balance sheets. Revenues from these contracts consist primarily of fees assessed against the contractholder account balance for mortality, policy administration, and surrender charges, and are reported in policy fees in the statements of income. Additionally, the Company earns investment income from the investment of contract deposits in the Company's general account portfolio, which is reported in net investment income in the statements of income.

Fees assessed that represent compensation to the Company for benefits to be provided in future periods and certain other fees are established as a unearned revenue reserve liability and amortized into revenue over the expected life of the related contracts in proportion to estimated gross profits in a manner consistent with DAC for these contracts. Unearned revenue reserves are reported in contractholder deposit funds and other policyholder liabilities in the balance sheets and amortized into policy fees in the statements of income. Benefits and expenses for these products include claims in excess of related account balances, expenses for contract administration and interest credited to contractholder account balances in the statements of income.

### Other income

Other income is primarily comprised of administration, management fees and distribution fees.

See Note 9 —“Composition of other assets, liabilities, income, insurance expenses and general, administrative and other expenses” for additional information about other income.

### Insurance expenses

Insurance expenses are primarily comprised of commissions expense, premium taxes and other expenses related to insurance products and reinsurance transactions.

See Note 9 —“Composition of other assets, liabilities, income, insurance expenses and general, administrative and other expenses” for additional information about insurance expenses.

## Notes to the Financial Statements

---

### **General and administrative expenses**

General and administrative expenses are primarily comprised of employee compensation and benefit expenses, administrative and professional services and other operating expenses.

See Note 9 —“Composition of other assets, liabilities, income, insurance expenses and general, administrative and other expenses” for additional information about general and administrative expenses.

### **Income Taxes**

The Company is not subject to Bermuda income or capital gains tax under current Bermuda law. In the event that there is a change in current law such that taxes on income or capital gains are imposed, the Company would be exempt from such tax until March 2035 pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966. Therefore, no such taxes are accrued in Bermuda. The Company may be subject to a variety of transfer pricing or permanent establishment challenges by taxing authorities in various jurisdictions. The completion of tax examinations may result in changes to the amounts recognized in the Company’s financial statements.

## **Adoption of new accounting pronouncements**

### **The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) and related regulatory actions**

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating loss (“NOL”) carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019 and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes.

The provisions of the CARES Act, as amended by the Consolidated Appropriations Act, also permit financial institutions to suspend requirements under U.S. GAAP for loan modifications that otherwise would be categorized as troubled debt restructurings (“TDRs”) if (1) the borrower was not more than 30 days past due as of December 31, 2019, and (2) the modifications are related to arrangements that defer or delay the payment of principal or interest, or change the interest rate on the loan, provided the modifications are made between March 1, 2020 and the earlier of 60 days after the end of the national emergency related to the COVID-19 pandemic or January 1, 2022. The Company applied this guidance before the permitted suspension period expired on January 1, 2022 to loan forbearance requests that meet the requirements. The application of this guidance did not have a material impact on the financial statements.

See Note 3 —“Investments,” for additional information on loan modifications.

### **Simplifying the accounting for income taxes**

On December 18, 2019, the Financial Accounting Standards Board (the “FASB”) issued ASU No. 2019-12, which modifies ASC 740 to simplify the accounting for income taxes. This guidance eliminates the exceptions to the incremental approach, to accounting for basis differences when there are changes in ownership of foreign investments, and to interim period tax accounting for year-to-date losses that exceed anticipated losses. The guidance also simplifies the application of tax guidance related to franchise taxes, transactions with government entities, separate financial statements of legal entities that are not subject to tax, and enacted changes in tax laws in interim periods. The guidance is effective for public business entities that meet the definition of an SEC filer for fiscal years beginning after December 15, 2020, including interim period within those fiscal years. The Company adopted the standard effective

## Notes to the Financial Statements

---

January 1, 2021. The adoption of this new guidance did not have a significant impact on the financial statements.

### Reference rate reform

In March 2020, the FASB issued new guidance to ease the accounting implications of the transition away from the London Interbank Offering Rate, or “LIBOR,” and other reference rates, which are scheduled to be discontinued, including LIBOR tenors after June 30, 2023. The new guidance offers a variety of optional expedients and exceptions related to accounting for contract modifications and hedging relationships. These expedients and exceptions apply only to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. As amended, the new guidance is effective for contract modifications made and hedging relationships existing or entered into from January 1, 2020 through December 31, 2024. In the first quarter 2022, the Company elected to adopt the new guidance and, for the modifications that have occurred to date, the adoption of the guidance has not had a material impact on the Company’s financial statements.

## Future application of accounting standards

### Targeted improvements to the accounting for long-duration contracts

In August 2018, the FASB issued new guidance for insurance and reinsurance companies that issue long-duration contracts such as life insurance and annuities. The objective of this guidance is to improve, simplify and enhance the financial reporting of long-duration contracts by providing financial statement users with useful information in a timely and transparent manner. The primary changes include:

- (1) *more timely recognition of assumption changes in the liability for future policy benefits and use of a current rate for the discounting of future cash flows* - The assumptions used to calculate the liability for future policy benefits on traditional and limited-payment contracts are required to be reviewed and updated at least annually. Cash flow assumptions are required to be reviewed at least annually with the impact recognized in net income. Discount rate assumptions are prescribed as the current upper-medium grade (low credit risk) fixed income instrument yield with the impact from the discount rate recognized in other comprehensive income (OCI).
- (2) *standardization and improvement in the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts* - The new guidance creates a new category of benefits referred to as market risk benefits, which are contracts or contract features that provide both protection to the policyholder from capital market risk and expose the insurer to other-than-nominal capital market risk. Market risk benefits are required to be measured at fair value with the change in fair value recognized in net income, except for changes in the entity’s non-performance risk, which is recognized in OCI.
- (3) *simplification of the amortization of deferred acquisition costs* - Deferred acquisition costs (DAC) and other actuarial balances for life and annuity contracts are required to be amortized on a constant basis over the term of the related contracts.
- (4) *enhanced disclosures* - Additional disclosures are required including disaggregated roll-forwards of significant insurance liabilities as well as disclosures about significant inputs, judgments, assumptions and methods used in measurement.

The guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. For changes related to the liability for future



## Notes to the Financial Statements

---

policy benefits and deferred acquisition costs, the new guidance requires adoption using a modified retrospective approach upon transition with an option to elect a retrospective approach. For changes related to market risk benefits, the new guidance requires a retrospective approach.

On January 1, 2023, the Company adopted this guidance using the retrospective approach with a transition date of February 1, 2021, the date of KKR's acquisition of Global Atlantic, for the liability for future policy benefits, deferred acquisition costs and market risk benefits. The adoption of this guidance had no impact on retained earnings and accumulated other comprehensive income (loss) as of our transition date.

Under the new insurance accounting standard, there will be no impact to shareholders' equity at December 31, 2021. The Company continues to evaluate the impacts to shareholders' equity, accumulated other comprehensive income, and retained earnings as of December 31, 2022.

The new guidance will increase financial statement volatility for business with insurance exposure primarily due to the requirement to measure market risk benefits at fair value, which is recorded in net income, except for changes in value attributable to changes in an entity's non-performance risk, which is recognized in OCI. In addition, the new guidance will have a significant impact on the Company's systems, processes and controls.

### **Troubled debt restructurings and vintage disclosures**

In March 2022, the FASB issued new guidance regarding the modification of receivables, which affects their recognition and measurement. The guidance eliminates the concept of troubled debt restructurings and instead requires all modifications to be analyzed to determine whether they result in a new receivable or a continuation of an existing receivable. The guidance also makes related updates to the measurement of expected credit losses for receivables. The new guidance requires additional disclosures for receivable modifications involving borrowers experiencing financial difficulty as well as disclosure of loan charge-offs by origination year or vintage. For entities that have already adopted ASC 326 (addressing credit losses on financial instruments), the guidance is effective for fiscal years beginning after December 15, 2022, including interim period within those fiscal years. Early adoption is permitted. The adoption of this accounting standard update is not expected to have a significant impact on the Company's consolidated financial statements.

## Notes to the Financial Statements

### 3. Investments

#### Fixed maturity securities

The cost or amortized cost and fair value for AFS fixed maturity securities were as follows:

As of December 31, 2022 (Successor)	Cost or amortized cost	Allowance for credit losses <sup>(2)</sup>	Gross unrealized		Fair value
			gains	losses	
(\$ in millions)					
AFS fixed maturity securities portfolio by type:					
U.S. government and agencies	\$ 106	\$ —	\$ —	\$ (39)	\$ 67
U.S. state, municipal and political subdivisions	312	—	—	(65)	247
Corporate	3,571	—	1	(936)	2,636
RMBS	1,150	(15)	3	(132)	1,006
CMBS	931	(1)	—	(103)	827
CLOs	247	—	—	(15)	232
CBOs	392	—	—	(36)	356
All other structured securities <sup>(1)</sup>	380	(1)	1	(33)	347
<b>Total AFS fixed maturity securities</b>	<b>\$ 7,089</b>	<b>\$ (17)</b>	<b>\$ 5</b>	<b>\$ (1,359)</b>	<b>\$ 5,718</b>

(1) Includes primarily asset-backed securities, or "ABS."

(2) Represents the cumulative amount of credit impairments that have been recognized in the statements of income (as net investment (losses) gains) or that were recognized as a gross-up of the purchase price of PCD securities. Amount excludes unrealized losses related to non-credit impairment.

As of December 31, 2021 (Successor)	Cost or amortized cost	Allowance for credit losses(2)	Gross unrealized		Fair value
			gains	losses	
(\$ in millions)					
AFS fixed maturity securities portfolio by type:					
U.S. government and agencies	\$ 279	\$ —	\$ 3	\$ (2)	\$ 280
U.S. state, municipal and political subdivisions	271	—	3	(1)	273
Corporate	3,902	—	15	(68)	3,849
RMBS	1,293	(6)	24	(17)	1,294
CMBS	992	—	1	(9)	984
CLOs	448	—	—	(1)	447
CBOs	388	(2)	—	(5)	381
Other Structured Securities <sup>(1)</sup>	447	(2)	5	(5)	445
Total AFS fixed maturity securities	\$ 8,020	\$ (10)	\$ 51	\$ (108)	\$ 7,953

(1) Includes primarily asset-backed securities, or "ABS."

(2) Represents the cumulative amount of credit impairments that have been recognized in the statements of income (as net investment (losses) gains) or that were recognized as a gross-up of the purchase price of PCD securities. Amount excludes unrealized losses related to non-credit impairment.



## Notes to the Financial Statements

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, or the Company may have the right to put or sell the obligations back to the issuers.

The maturity distribution for AFS fixed maturity securities is as follows:

As of December 31, 2022 (Successor)	Cost or amortized cost	Fair value
(\$ in millions)		
Due in one year or less	\$ 5	\$ 5
Due after one year through five years	463	433
Due after five years through ten years	108	94
Due after ten years	3,412	2,416
<b>Subtotal</b>	<b>3,988</b>	<b>2,948</b>
RMBS	1,136	1,006
CMBS	931	828
CLOs	246	232
CBOs	392	357
Other structured securities	379	347
<b>Total AFS fixed maturity securities</b>	<b>\$ 7,072</b>	<b>\$ 5,718</b>

### Purchased credit deteriorated fixed maturity securities

Certain securities purchased by the Company were assessed at acquisition as having experienced a more-than-insignificant deterioration in credit quality since their origination. These securities are identified as PCD, and a reconciliation of the difference between the purchase price and the par value of these PCD securities is below:

	December 31, 2022	December 31, 2021
(\$ in millions)	Successor	Successor
Purchase price of PCD securities acquired during the current period	\$ 5	\$ 185
Allowance for credit losses at acquisition	—	17
Discount (premium) attributable to other factors	1	17
<b>Par value</b>	<b>\$ 6</b>	<b>\$ 219</b>

Notes to the Financial Statements

Securities in a continuous unrealized loss position

The following tables provide information about the Company's AFS fixed maturity securities that have been continuously in an unrealized loss position:

As of December 31, 2022 (Successor)	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
(\$ in millions)						
<b>AFS fixed maturity securities portfolio by type:</b>						
U.S. government and agencies	\$ 52	\$ (33)	\$ 15	\$ (6)	\$ 67	\$ (39)
U.S. state, municipal and political subdivisions	184	(49)	57	(17)	241	(66)
Corporate	695	(133)	1,816	(803)	2,511	(936)
RMBS	608	(66)	351	(67)	959	(133)
CMBS	561	(53)	266	(50)	827	(103)
CLOs	180	(10)	52	(4)	232	(14)
CBOs	167	(16)	190	(20)	357	(36)
Other structured securities	163	(14)	143	(19)	306	(33)
<b>Total AFS fixed maturity securities in a continuous loss position</b>	<b>\$ 2,610</b>	<b>\$ (374)</b>	<b>\$ 2,890</b>	<b>\$ (986)</b>	<b>\$ 5,500</b>	<b>\$ (1,360)</b>

As of December 31, 2021 (Successor)	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
(\$ in millions)						
<b>AFS fixed maturity securities portfolio by type:</b>						
U.S. government and agencies	\$ 162	\$ (2)	\$ —	\$ —	\$ 162	\$ (2)
U.S. state, municipal and political subdivisions	77	(1)	—	—	77	(1)
Corporate	2,803	(68)	—	—	2,803	(68)
RMBS	537	(17)	—	—	537	(17)
CMBS	450	(9)	—	—	450	(9)
CLOs	163	(1)	—	—	163	(1)
CBOs	266	(5)	—	—	266	(5)
Other structured securities	260	(5)	—	—	260	(5)
<b>Total AFS fixed maturity securities in a continuous loss position</b>	<b>\$ 4,716</b>	<b>\$ (109)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 4,716</b>	<b>\$ (109)</b>

Unrealized gains and losses can be created by changing interest rates or several other factors, including changing credit spreads. The Company had gross unrealized losses on below investment grade AFS fixed maturity securities of \$119 million and \$10 million as of December 31, 2022 (Successor) and 2021 (Successor), respectively. The single largest unrealized loss on AFS fixed maturity securities was \$14 million and \$3 million as of December 31, 2022 (Successor) and 2021 (Successor), respectively. The Company had 1,495 and 1,016 securities in an unrealized loss position as of December 31, 2022 (Successor) and 2021 (Successor), respectively.

As of December 31, 2022 (Successor) and 2021 (Successor), AFS fixed maturity securities in an unrealized loss position for over 12 months consisted of 764 and 0 debt securities, respectively. These debt securities primarily relate to CLO, corporate and RMBS fixed maturity securities, which have depressed values due primarily to an increase in interest rates since the purchase of these securities.

## Notes to the Financial Statements

Unrealized losses were not recognized in earnings on these debt securities since the Company neither intends to sell the securities nor does it believe that it is more-likely-than-not that it will be required to sell these securities before recovery of their cost or amortized cost basis. For securities with significant declines in value, individual security level analysis was performed utilizing underlying collateral default expectations, market data and industry analyst reports.

The cost or amortized cost and fair value for HTM fixed maturity securities were as follows:

As of December 31, 2022	Cost or amortized cost	Gross unrealized		Fair value
		gains	losses	
(\$ in millions)				
Corporate	\$ 8	\$ —	\$ —	\$ 8
<b>Total HTM fixed maturities securities</b>	<b>\$ 8</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 8</b>

As of December 31, 2021	Cost or amortized cost	Gross unrealized		Fair value
		gains	losses	
	(\$ in millions)			
CLOs	\$ 12	\$ —	\$ —	\$ 12
Total HTM fixed maturities securities	\$ 12	\$ —	\$ —	\$ 12

As of December 31, 2022 and 2021, there were no non-credit OTTI losses reflected within the fair value of HTM fixed maturity securities.

### Allowance for credit losses on fixed maturity securities

The table below presents a roll-forward of the allowance for credit losses recognized for fixed maturity securities held by the Company:

	Year ended December 31, 2022 (Successor)		
	Corporate	Structured	Total
(\$ in millions)			
Balance, as of beginning of period <sup>(1)</sup>	\$ —	\$ (11)	\$ (11)
Initial impairments for credit losses recognized on securities not previously impaired	—	(12)	(12)
Initial credit loss allowance recognized on PCD securities	—	—	—
Accretion of initial credit loss allowance on PCD securities	—	—	—
Reductions due to sales (or maturities, pay downs or prepayments) during the period of securities previously identified as credit impaired	—	5	5
Net additions / reductions for securities previously impaired	—	2	2
<b>Balance, as of end of period</b>	<b>\$ —</b>	<b>\$ (16)</b>	<b>\$ (16)</b>

## Notes to the Financial Statements

Eleven months ended December 31, 2021 (Successor)				
	Corporate	Structured	Total	
(\$ in millions)				
Balance, as of beginning of period <sup>(1)</sup>	\$	—	\$	(16)
Initial impairments for credit losses recognized on securities not previously impaired		—		(9)
Initial credit loss allowance recognized on PCD securities		—		(1)
Accretion of initial credit loss allowance on PCD securities		—		—
Reductions due to sales (or maturities, pay downs or prepayments) during the period of securities previously identified as credit impaired		—		2
Net additions / reductions for securities previously impaired		—		14
<b>Balance, as of end of period</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>(10)</b>

(1) Includes securities designated as purchased credit deteriorated as of the time of the KKR Acquisition.

The table below presents a roll-forward of the cumulative credit loss component of OTTI losses recognized in net investment gains in the statement of operations on AFS fixed maturity securities still held by the Company for the one month ended January 31, 2021 (Predecessor):

One month ended	
January 31, 2021	
(\$ in millions)	
Predecessor	
Balance, as of beginning of year	\$ 3
Additions:	
Initial impairments – credit loss OTTI recognized on securities not previously impaired	—
Additional impairments – credit loss OTTI recognized on securities previously impaired	—
Reductions:	
Due to sales (or maturities, pay downs or prepayments) during the period of securities previously impaired as credit loss OTTI	—
<b>Balance, as of end of year</b>	<b>\$ 3</b>

# Notes to the Financial Statements

## Mortgage and other loan receivables

Mortgage and other loan receivables consist of the following:

(\$ in millions)	As of December 31,	
	2022	2021
	Successor	Successor
Commercial mortgage loans	\$ 1,076	\$ 659
Residential mortgage loans	652	639
Other loan receivables <sup>(1)</sup>	6	1
<b>Total mortgage and other loan receivables</b>	<b>\$ 1,734</b>	<b>\$ 1,299</b>
Allowance for loan losses	(18)	(8)
<b>Total mortgage and other loan receivables, net of allowance for loan losses</b>	<b>\$ 1,716</b>	<b>\$ 1,291</b>

(1) As of December 31, 2022, other loan receivables consisted primarily of renewable energy development loans of \$6 million.

The maturity distribution for residential and commercial mortgage loans is as follows as of December 31, 2022 (Successor):

Years	Residential	Commercial	Total mortgage loans
(\$ in millions)			
2023	\$ 24	\$ 29	\$ 53
2024	6	93	99
2025	4	143	147
2026	38	276	314
2027	1	110	111
2028 and thereafter	579	425	1,004
<b>Total</b>	<b>\$ 652</b>	<b>\$ 1,076</b>	<b>\$ 1,728</b>

Actual maturities could differ from contractual maturities, because borrowers may have the right to prepay (with or without prepayment penalties) and loans may be refinanced.

The Company diversifies its mortgage loan portfolio by both geographic region and property type to reduce concentration risk. The following tables present the Company's mortgage loans by geographic region and property type:

Mortgage loans - carrying value by geographic region	As of December 31,			
	2022		2021	
(\$ in millions)	Successor		Successor	
Pacific	\$ 384	22 %	\$ 371	29 %
West South Central	126	7 %	79	6 %
South Atlantic	500	29 %	254	20 %
Middle Atlantic	94	5 %	232	18 %
East North Central	280	16 %	50	4 %
Mountain	237	14 %	168	13 %
New England	77	4 %	61	5 %
East South Central	18	1 %	59	5 %
West North Central	12	1 %	13	1 %
Other regions	—	—	10	1 %
<b>Total by geographic region</b>	<b>\$ 1,728</b>	<b>100%</b>	<b>\$ 1,297</b>	<b>100%</b>

Notes to the Financial Statements

Mortgage loans - carrying value by property type (\$ in millions)	As of December 31,			
	2022		2021	
	Successor		Successor	
Residential	\$ 652	38 %	\$ 639	49 %
Office building	222	13 %	98	8 %
Apartment	688	40 %	499	38 %
Industrial	93	5 %	32	2 %
Retail	10	1 %	—	— %
Other property types	63	4 %	29	2 %
<b>Total by property type</b>	<b>\$ 1,728</b>	<b>100 %</b>	<b>\$ 1,297</b>	<b>100 %</b>

Allowance for loan losses

Changes in the allowance for loan losses are summarized below:

	Year ended December 31, 2022 (Successor)			
	Commercial mortgage loans	Residential mortgage loans	Consumer and other loan receivables	Total
(\$ in millions)				
Balance, at beginning of period	\$ —	8	—	\$ 8
Net provision (release)	9	1	—	10
<b>Balance, as of end of period</b>	<b>\$ 9</b>	<b>9</b>	<b>—</b>	<b>\$ 18</b>

	Eleven months ended December 31, 2021 (Successor)			
	Commercial mortgage loans	Residential mortgage loans	Consumer and other loan receivables	Total
(\$ in millions)				
Balance, at beginning of period	\$ —	\$ 10	\$ —	\$ 10
Net provision (release)	—	(2)	—	(2)
<b>Balance, as of end of period</b>	<b>\$ —</b>	<b>\$ 8</b>	<b>\$ —</b>	<b>\$ 8</b>

	One month ended January 31, 2021 (Successor)	
	Residential mortgage loans	Total
(\$ in millions)		
Balance, at beginning of period	\$ 3	\$ 3
Net provision (release)	—	—
<b>Balance, as of end of period</b>	<b>\$ 3</b>	<b>\$ 3</b>

As of December 31, 2022 and 2021 the Company had \$24 million and \$29 million, respectively, of mortgage loans that were 90 days or more past due or in the process of foreclosure. The Company ceases accrual of interest on loans that are more than 90 days past due, and recognizes income as cash is received. As of December 31, 2022 and 2021 there were \$24 million and \$29 million, respectively, of mortgage loans that were non-income producing.

## Notes to the Financial Statements

As of December 31, 2022, 0% of residential mortgage loans have been granted forbearance due to COVID-19. This forbearance, which generally involves a 3-month period in which payments are not required (though must subsequently be made up), is not considered to result in troubled debt restructurings for year ended December 31, 2022. Interest continues to accrue on loans in temporary forbearance. Please refer to Note 2—"Basis of presentation and significant accounting policies" to our financial statements for additional information on regulations impacting the Company under the CARES Act.

As of December 31, 2022 and 2021, the Company had no other loan receivables that were delinquent by more than 120 days or in default.

### Purchased credit deteriorated loans

Certain residential mortgage loans purchased by the Company were assessed at acquisition as having experienced a more-than-insignificant deterioration in credit quality since their origination. These loans are identified as PCD, and a reconciliation of the difference between the purchase price and the par value of these PCD loans is below:

	December 31, 2021
<i>(\$ in millions)</i>	<i>Successor</i>
Purchase price of PCD loans acquired during the current period	\$ 403
Allowance for credit losses at acquisition	(10)
Discount (premium) attributable to other factors	10
<b>Par value</b>	<b>\$ 403</b>

### Credit quality indicators

#### *Mortgage and loan receivable performance status*

The following table represents our portfolio of commercial and residential mortgage loan receivables by origination year and performance status:

Performance status	December 31, 2022 (Successor)						
	2022	2021	2020	2019	2018	Prior	Total
<i>(\$ in millions)</i>							
<b>Commercial mortgage loans</b>							
Current	\$ 392	\$ 602	\$ —	\$ 79	\$ —	\$ 3	\$ 1,076
30 to 59 days past due	—	—	—	—	—	—	—
60 to 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
<b>Total commercial mortgage loans</b>	<b>\$ 392</b>	<b>\$ 602</b>	<b>\$ —</b>	<b>\$ 79</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>\$ 1,076</b>
<b>Residential mortgage loans</b>							
Current	\$ 107	\$ 213	\$ 2	\$ 2	\$ 1	\$ 279	\$ 604
30 to 59 days past due	—	3	1	—	—	13	17
60 to 89 days past due	—	2	2	—	—	4	8
Over 90 days past due	1	2	—	—	—	20	23
<b>Total residential mortgage loans</b>	<b>\$ 108</b>	<b>\$ 220</b>	<b>\$ 5</b>	<b>\$ 2</b>	<b>\$ 1</b>	<b>\$ 316</b>	<b>\$ 652</b>

## Notes to the Financial Statements

## Loan-to-value ratio on mortgage loans

The loan-to-value ratio is expressed as a percentage of the current amount of the loan relative to the value of the underlying collateral. The following table summarizes the Company's loan-to-value ratios for its commercial mortgage loans as of December 31, 2022 (Successor) and 2021 (Successor):

Loan-to-value	December 31, 2022 (Successor)		December 31, 2021 (Successor)	
	Carrying value	Percentage of commercial mortgage loans	Carrying value	Percentage of commercial mortgage loans
(\$ in millions, except percentages)				
70% and less	\$ 879	81 %	\$ 515	78 %
71% - 90%	189	18 %	143	22 %
Over 90%	8	1 %	—	— %
<b>Total commercial mortgage loans</b>	<b>\$ 1,076</b>	<b>100 %</b>	<b>\$ 658</b>	<b>100 %</b>

Changing economic conditions affect the Company's valuation of commercial mortgage loans. Changing vacancies and rents are incorporated into the discounted cash flow analysis that the Company performs for monitored loans and may contribute to the establishment of (or increase or decrease in) a commercial mortgage loan valuation allowance for losses. In addition, the Company continuously monitors its commercial mortgage loan portfolio to identify risk. Areas of emphasis are properties that have exposure to specific geographic events, or have deteriorating credit.

The weighted average loan-to-value ratio for the Company's residential mortgage loans was 63% and 67% as of December 31, 2022 (Successor) and 2021 (Successor), respectively



## Notes to the Financial Statements

### Net investment income

Net investment income is comprised primarily of interest income, including amortization of premiums and accretion of discounts, based on yields which change due to expectations in projected cash flows,

The components of net investment income were as follows:

	Year ended	Eleven months ended	One month ended
	December 31, 2022	December 31, 2021	January 31, 2021
(\$ in millions)	Successor	Successor	Predecessor
Fixed maturity securities - interest and other income	\$ 336	\$ 207	\$ 17
Mortgage and other loan receivables	63	25	3
Income ceded to funds withheld payable at interest	(80)	(34)	—
Short-term and other investment income	5	6	—
<b>Gross investment income<sup>(1)</sup></b>	<b>\$ 324</b>	<b>\$ 204</b>	<b>\$ 20</b>
Less investment expenses:			
Investment management and administration	\$ 35	\$ 24	\$ 1
<b>Net investment income</b>	<b>\$ 289</b>	<b>\$ 180</b>	<b>\$ 19</b>

### Net investment gains (losses)

Net investment gains (losses) were as follows:

	Year ended	Eleven months ended	One month ended
	December 31, 2022	December 31, 2021	January 31, 2021
(\$ in millions)	Successor	Successor	Predecessor
Realized gains (losses) on available-for-sale fixed maturity debt securities	\$ (68)	\$ (8)	\$ 1
Credit loss allowances on AFS securities	(10)	5	—
Trading fixed maturity securities	(682)	(49)	—
Net gains (losses) on derivative instruments	(1,215)	174	(60)
Funds withheld at interest ceded	31	(7)	—
Credit loss allowances on mortgage and other loan receivables	1	1	—
Other investments	—	—	—
Allowance for loan losses provision	(10)	2	—
Allowance for commitment losses	—	(1)	—
OTTI on AFS fixed maturity securities	—	—	—
<b>Net investment gains (losses)</b>	<b>\$ (1,953)</b>	<b>\$ 117</b>	<b>\$ (59)</b>

## Notes to the Financial Statements

### Proceeds and gross gains and losses from voluntary sales

The proceeds from voluntary sales and the gross gains and losses on those sales of AFS fixed maturity securities were as follows:

	Year ended December 31, 2022	Eleven months ended December 31, 2021	Year ended December 31, 2021
(\$ in millions)	Successor	Successor	Predecessor
<b>AFS fixed maturity securities:</b>			
Proceeds from voluntary sales	415	2,546	7
Gross gains	1	9	1
Gross losses	(69)	(17)	—

## 4. Derivative instruments

From time to time, the Company may enter into hedges designed to limit the volatility associated with changes in the value of general account assets or changes to net investment income as a result of interest rate or credit spread movements, while also taking into consideration economic impacts. In addition, the Company issues Synthetic GICs which are reported as derivative instruments on the balance sheets, and valued as total return swaps.

The Company also has embedded derivatives related to reinsurance contracts that are accounted for on a modified coinsurance and funds withheld basis. An embedded derivative exists because the arrangement exposes the reinsurer to third-party credit risk. These embedded derivatives are included in funds withheld payable at interest in the balance sheets.

The fair value and notional value of the derivative assets and liabilities were as follows:

As of December 31, 2022 (Successor)	Notional value	Derivative assets	Derivative liabilities
(\$ in millions)			
Derivative contracts			
Fair value included within total assets		\$ —	
Interest rate swaps	\$ 213		\$ 3
Total return swaps	\$ 14,671		\$ 1,478
Embedded derivative – funds withheld at interest			\$ (736)
Fair value included within total liabilities			\$ 745

As of December 31, 2021 (Successor)	Notional value	Derivative assets	Derivative liabilities
(\$ in millions)			
Derivative contracts			
Total return swaps	\$ 15,103	\$ 555	\$ —
Fair value included within total assets		\$ 555	
Embedded derivative – funds withheld at interest			\$ (54)
Fair value included within total liabilities			\$ (54)

## Notes to the Financial Statements

The Company has designated bond forwards to hedge the interest rate risk associated with the planned purchase of AFS debt securities in cash flow hedges. Regression analysis is used to assess the effectiveness of these hedges. As of December 31, 2022 (Successor) and 2021 (Successor), there was a cumulative (loss) gain of \$(1) million and \$— million on the bond forwards recorded in accumulated other comprehensive loss, respectively. Amounts deferred in accumulated other comprehensive loss are reclassified to net investment income following the qualifying purchases of AFS securities, as an adjustment to the yield earned over the life of the purchased securities, using the effective interest method. There were \$— million and \$846 million of securities purchased for December 31, 2022 (Successor) and the eleven months ended 2021 (Successor), respectively. The Company estimates that the amount of gains/losses in accumulated other comprehensive (loss) income to be reclassified into net income in the next 12 months will not be material.

The amounts of derivative gains and losses recognized for year ended December 31, 2022 and the eleven months ended December 31, 2021, respectively, are reported in the statements of income as follows:

	Year ended	Eleven months ended	One month ended
Derivative contracts not designated as hedges	December 31,	December 31,	January 31,
(\$ in millions)	2022	2021	2021
	Successor	Successor	Predecessor
Other investment gains (losses)			
Interest rate swaps	\$ (3)	\$ —	\$ —
Total return swaps	\$ (1,896)	\$ 121	\$ (60)
Embedded derivative – funds withheld at interest	681	54	—
<b>Total included in net other investment gains (losses)</b>	<b>\$ (1,218)</b>	<b>\$ 175</b>	<b>\$ (60)</b>

**Notes to the Financial Statements**

---

**5. Fair value disclosure of financial instruments**

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date (the exit price). The best evidence of fair value is a quoted price in an active market. If listed prices or quotations are not available, fair value is determined by reference to prices of similar instruments and quoted prices or recent prices in less active markets.

U.S. GAAP establishes a three-level valuation hierarchy based upon observable and non-observable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. The fair value hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. A financial instrument's level in the fair value hierarchy is based on the lowest level of any input that is significant to fair value measurement of the financial instrument. The three levels of the fair value hierarchy are described below:

**Basis of fair value measurement**

Level 1: Unadjusted quoted prices in active markets to which the Company had access as of the measurement date for identical, unrestricted assets and liabilities.

Level 2: Inputs to valuation techniques are observable either directly or indirectly through quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable; and

Level 3: Model-derived where one or more inputs to the valuation techniques are significant and unobservable.

The measurement of Level 3 financial instrument fair values uses unobservable inputs that are based on management judgment and the internal determination of assumptions that market participants would use in valuing them. Valuation subjectivity increases when markets are less liquid due to the lack of more transparent market-based inputs, which may increase the potential that estimated fair values are not reflective of the price at which an actual transaction would occur.

The following tables represent the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis:

Notes to the Financial Statements

As of December 31, 2022 (Successor)	Level 1	Level 2	Level 3	Total
(\$ in millions)				
<b>Assets:</b>				
<b>AFS fixed maturity securities:</b>				
U.S. government and agencies	\$ 27	\$ 40	\$ —	\$ 67
U.S. state, municipal and political subdivisions	—	246	—	246
Corporate	—	2,457	179	2,636
Structured securities	—	2,658	111	2,769
<b>Total AFS fixed maturity securities</b>	<b>\$ 27</b>	<b>\$ 5,401</b>	<b>\$ 290</b>	<b>\$ 5,718</b>
<b>Trading fixed maturity securities:</b>				
U.S. government and agencies	\$ —	\$ 40	\$ —	\$ 40
U.S. state, municipal and political subdivisions	—	9	—	9
Corporate	—	1,255	118	1,373
Structured securities	—	118	31	149
<b>Total trading fixed maturity securities</b>	<b>\$ —</b>	<b>\$ 1,422</b>	<b>\$ 149</b>	<b>\$ 1,571</b>
Total return swap	—	—	—	—
<b>Total assets at fair value</b>	<b>\$ 27</b>	<b>\$ 6,823</b>	<b>\$ 439</b>	<b>\$ 7,289</b>
<b>Liabilities:</b>				
Total return Swaps	\$ —	\$ —	\$ 1,478	\$ 1,478
Interest Rate Swaps	—	3	—	3
Funds withheld payable at interest	—	—	(736)	(736)
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>\$ 742</b>	<b>\$ 745</b>

As of December 31, 2021 (Successor)	Level 1	Level 2	Level 3	Total
(\$ in millions)				
<b>Assets:</b>				
<b>AFS fixed maturity securities:</b>				
U.S. government and agency securities	\$ 58	\$ 222	\$ —	\$ 280
U.S. state, municipal and political subdivisions	—	273	—	273
Corporate	—	3,638	212	3,850
Structured securities	—	3,384	166	3,550
<b>Total AFS fixed maturity securities</b>	<b>58</b>	<b>7,517</b>	<b>378</b>	<b>7,953</b>
<b>Trading fixed maturity securities:</b>				
U.S. government and agencies	\$ 16	\$ 222	\$ —	\$ 238
U.S. state, municipal and political subdivisions	—	6	—	6
Corporate	—	1,848	41	1,889
Structured securities	—	101	36	137
<b>Total trading fixed maturity securities</b>	<b>\$ 16</b>	<b>\$ 2,177</b>	<b>\$ 77</b>	<b>\$ 2,270</b>
Total return swaps	—	—	555	555
<b>Total assets at fair value</b>	<b>\$ 74</b>	<b>\$ 9,694</b>	<b>\$ 1,010</b>	<b>\$ 10,778</b>
<b>Liabilities:</b>				
Funds withheld payable at interest	—	—	(54)	(54)
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (54)</b>	<b>\$ (54)</b>

## Notes to the Financial Statements

---

### Fair value techniques and inputs

The following is a description of the valuation techniques and inputs used for instruments carried at fair value. The observability of the inputs used in the valuation determines the appropriate level in the fair value hierarchy for the respective asset or liability.

#### Investments

Investments in U.S. Treasury, government and agency securities, foreign government securities, short-term money market securities and mutual funds held in separate accounts are valued using quoted market prices for identical unrestricted instruments in active markets. Investments such as fixed maturity securities for which quoted market prices from active markets are not available are priced using observable inputs, which can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations and the relationship of recent market activity to the prices provided from alternative pricing sources. Other investments having one or more significant valuation inputs that are not observable are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequently, the Company uses other methodologies to determine fair value, which vary based on the type of investment.

Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realized on sales.

#### Derivative instruments

Derivative instruments such as exchange-traded futures and options are valued at their quoted market price. Most of the over the counter derivative instruments used by the Company are those for which all significant valuation inputs are corroborated by market evidence. These derivative instruments are principally valued using an income approach. The Company calculates the fair value of derivative assets by discounting future cash flows at a rate that incorporates counterparty credit spreads and the fair value of derivative liabilities by discounting future cash flows at a rate that incorporates the Company's own credit spreads. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence.

Valuations for non-option based interest rate derivatives are based on present value techniques, which utilize significant inputs that may include the swap yield curve, London Interbank Offered Rate, or "LIBOR," basis curves and repurchase rates. Valuations for option based interest rate derivatives are based on option pricing models, which utilize significant inputs that may include the swap yield curve, LIBOR basis curves and interest rate volatility.

Derivatives that are Synthetic GICs are primarily based on the fair value of the underlying investments. The fair value of these securities are determined using quoted market prices in active markets or other observable inputs to pricing.

#### Funds withheld at interest

The funds withheld receivable at interest and funds withheld payable at interest carried at fair value are primarily valued based on the fair value of the underlying investments, which have quoted prices or other observable inputs to pricing. Reinsurance recoverables carried at fair value are valued using present value techniques that consider inputs including mortality and surrender rates for the associated policies,

## Notes to the Financial Statements

as well as estimates of policy expenses and the cost of capital held in support of the related closed block policy liabilities.

### Fair value of assets and liabilities

#### Significant unobservable inputs

The tables below present the ranges of significant unobservable inputs used to value the Company's Level 3 financial assets and liabilities, and includes only those items for which information is reasonably available, such as data from internal determinations of fair value. These ranges represent the significant unobservable inputs that were used in the valuation of each type of financial asset and liability. Weighted averages in the tables below are calculated by weighting each input by the relative fair value of the respective financial instruments. The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one financial asset or liability. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the Company's Level 3 financial assets and liabilities as of December 31, 2022 and 2021:

As of December 31, 2022 (Successor)				
Level 3 assets	Level 3 assets (\$ in millions)	Valuation techniques and significant unobservable inputs	Range of significant unobservable inputs (weighted average, or "WA")	Impact of an increase in the input on fair value
Corporate fixed maturity securities	281	Discounted cash flows - discount spread	2.14% - 4.57% (WA 3.91%)	Decrease
Structured securities	9	Discounted cash flows - discount spread	3.13% - 4.57% (WA 3.18%)	Decrease
		Discounted cash flows - constant prepayment rate	5.00% - 15.00% (WA 15.0%)	Increase/ Decrease
		Discounted cash flows - constant default rate	1.00% - 2.50% (WA 1.08%)	Decrease
		Discounted cash flows - loss severity	100% - 100% (WA 100%)	Decrease

Notes to the Financial Statements

As of December 31, 2021 (Successor)				
Level 3 assets	Level 3 assets (\$ in millions)	Valuation techniques and significant unobservable inputs	Range of significant unobservable inputs (WA)	Impact of an increase in the input on fair value
Corporate fixed maturity securities	122	Discounted cash flows - discount spread	0.63% to 2.65% (WA 1.81%)	Decrease
Structured securities	12	Discounted cash flows - discount spread	2.15.% to 3.15% (WA 2.79%)	Decrease
		Discounted cash flows - constant prepayment rate	5.00% to 15.00% (WA 15%)	Increase/ Decrease
		Discounted cash flows - constant default rate	2.00% to 2.50% (WA 2.5%)	Decrease
		Discounted cash flows - loss severity	100.00% to 100.00% (WA 100%)	Decrease
Total return swap	555	Discounted cash flows - discount spread	0.00% - 70.77%; WA 2.53%	Decrease
		Discounted cash flows - constant prepayment rate	25.00% - 25.00%; WA 25.%	Increase/ Decrease
		Discounted cash flows - constant default rate	3.10% - 3.10%; WA 3.1%	Decrease
		Discounted cash flows - loss severity	46.17% for first lien, 90.33% for second lien	Decrease

As of December 31, 2022 (Successor)				
Level 3 liabilities	Level 3 liabilities (\$ in millions)	Valuation techniques and significant unobservable inputs	Range of significant unobservable inputs (weighted average, or "WA")	Impact of an increase in the input on fair value
Total return swap	1,478	Discounted cash flows - discount spread	0.00% - 14.86%; WA 3.4%	Decrease
		Discounted cash flows - constant prepayment rate	25.00% - 25.00%; WA 25.%	Increase/ Decrease
		Discounted cash flows - constant default rate	3.10% - 3.10%; WA 3.1%	Decrease
		Discounted cash flows - loss severity	46.17% for first lien, 90.33% for second lien	Decrease

Transfers between levels

Overall, transfers into and out of Level 3 are attributable to a change in the observability of inputs. Assets and liabilities are transferred into Level 3 when a significant input cannot be corroborated with market observable data. This occurs when market activity decreases significantly and underlying inputs cannot be observed, current prices are not available, and when there are significant variances in quoted prices, thereby affecting transparency. Assets and liabilities are transferred out of Level 3 when circumstances change such that a significant input can be corroborated with market observable data. This may be due to a significant increase in market activity, a specific event, or one or more significant input(s) becoming observable.



Year ended December 31, 2022 (Successor)												
	Beginning Balance		Income		OCI		Net settlements / purchases		Transfers into / (out) of Level 3		Ending balance	
(\$ in millions)												
<b>Assets:</b>												
AFS fixed maturity securities:												
U.S. government and agencies	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—
Corporate fixed maturity securities		212		—		(23)		(10)		—		179
Structured securities		166		—		(14)		(45)		4		111
<b>Total AFS fixed maturity securities</b>		<b>378</b>		<b>—</b>		<b>(37)</b>		<b>(55)</b>		<b>4</b>		<b>290</b>
Trading fixed maturity securities:												
Corporate fixed maturity securities		41		—		(11)		88		—		118
Structured securities		36		—		(6)		1		—		31
<b>Total trading fixed maturity securities</b>		<b>77</b>		<b>—</b>		<b>(17)</b>		<b>89</b>		<b>—</b>		<b>149</b>
Mortgage and other loan receivables		—		—		—		—		—		—
Total return swap		555		(555)		—		—		—		—
<b>Total assets</b>	<b>\$</b>	<b>1,010</b>	<b>\$</b>	<b>(555)</b>	<b>\$</b>	<b>(54)</b>	<b>\$</b>	<b>34</b>	<b>\$</b>	<b>4</b>	<b>\$</b>	<b>439</b>
<b>Liabilities:</b>												
Interest Rate Swaps	\$	—	\$	1	\$	1	\$	—	\$	—	\$	2
Total Return Swaps		—		1,480		—		—		—		1,480
Funds withheld payable at interest		(54)		(682)		—		—		—		(736)
<b>Total liabilities</b>	<b>\$</b>	<b>(54)</b>	<b>\$</b>	<b>799</b>	<b>\$</b>	<b>1</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>746</b>

Notes to the Financial Statements

Eleven Months months ended December 31, 2021 (Successor)												
	Beginning Balance		Income		OCI		Net settlements / purchases		Transfers into / (out) of Level 3		Ending balance	
(\$ in millions)												
<b>Assets:</b>												
AFS fixed maturity securities:												
U.S. government and agencies	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—
Corporate fixed maturity securities		131		—		(7)		88		—		212
Structured securities		20		—		(1)		81		66		166
<b>Total AFS fixed maturity securities</b>		<b>151</b>		<b>—</b>		<b>(8)</b>		<b>169</b>		<b>66</b>		<b>378</b>
Trading fixed maturity securities:												
Corporate fixed maturity securities		—		—		—		41		—		41
Structured securities		—		—		—		39		(3)		36
<b>Total trading fixed maturity securities</b>		<b>—</b>		<b>—</b>		<b>—</b>		<b>80</b>		<b>(3)</b>		<b>77</b>
Mortgage and other loan receivables		18		—		—		(18)		—		—
Total return swap		509		46		—		—		—		555
<b>Total assets</b>	<b>\$</b>	<b>678</b>	<b>\$</b>	<b>46</b>	<b>\$</b>	<b>(8)</b>	<b>\$</b>	<b>231</b>	<b>\$</b>	<b>63</b>	<b>\$</b>	<b>1,010</b>
<b>Liabilities:</b>												
Funds withheld payable at interest		—		(54)		—		—		—		(54)
<b>Total liabilities</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>(54)</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>(54)</b>

One month ended January 31, 2021 (Predecessor)											
	Beginning Balance		Net realized and unrealized gains / losses included in				Net settlements/ purchases		Transfers into / (out) of Level 3		Ending balance
			Income	OCI							
(\$ in millions)											
Assets:											
AFS fixed maturity securities:											
Corporate fixed maturity	\$	13	\$	—	\$	—	\$	—	\$	—	\$ 13
Structured securities		146		—		—		—		—	146
<b>Total AFS fixed maturity securities</b>	<b>\$</b>	<b>159</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>—</b>	<b>\$ 159</b>
Mortgage and other loan		18		—		—		—		—	18
Total return swap		569		(60)		—		—		—	509
<b>Total assets</b>	<b>\$</b>	<b>746</b>	<b>\$</b>	<b>(60)</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>—</b>	<b>\$ 686</b>

Notes to the Financial Statements

Year ended December 31, 2022 (Successor)	Purchases	Settlements	Net settlements / purchases
(\$ in millions)			
<b>Assets:</b>			
AFS fixed maturity securities:			
U.S. government and agencies	\$ —	\$ —	—
Corporate fixed maturity securities	111	(121)	(10)
Structured securities	1	(46)	(45)
<b>Total AFS fixed maturity securities</b>	<b>\$ 112</b>	<b>\$ (167)</b>	<b>\$ (55)</b>
Corporate fixed maturity securities	98	(10)	88
Structured securities	1	—	1
<b>Total Trading fixed maturity securities:</b>	<b>\$ 99</b>	<b>\$ (10)</b>	<b>\$ 89</b>
Mortgage and other loan receivables	—	—	—
Total return swap	—	—	—
<b>Total assets</b>	<b>\$ 211</b>	<b>\$ (177)</b>	<b>\$ 34</b>

Eleven Months months ended December 31, 2021 (Successor)	Purchases	Settlements	Net settlements / purchases
(\$ in millions)			
<b>Assets:</b>			
AFS fixed maturity securities:			
U.S. government and agencies	\$ —	\$ —	—
Corporate fixed maturity securities	89	(1)	88
Structured securities	86	(5)	81
<b>Total AFS fixed maturity securities</b>	<b>\$ 175</b>	<b>\$ (6)</b>	<b>\$ 169</b>
Corporate fixed maturity securities	41	—	41
Structured securities	39	—	39
<b>Total Trading fixed maturity securities:</b>	<b>\$ 80</b>	<b>\$ —</b>	<b>\$ 80</b>
Mortgage and other loan receivables	1	(19)	(18)
Total return swap	—	—	—
<b>Total assets</b>	<b>\$ 256</b>	<b>\$ (25)</b>	<b>\$ 231</b>

## Notes to the Financial Statements

## 6. Insurance intangibles, unearned revenue reserves and unearned front-end loads

The following reflects the changes to the DAC asset:

	Year ended		Eleven months ended	One month ended
	December 31,		December 31,	January 31,
	2022		2021	2021
(\$ in millions)	Successor		Successor	Predecessor
<b>Balance, as of beginning of period</b>	\$	—	\$	—
Block acquisition/reinsurance		—		—
Amortized to expense during the year <sup>(1)</sup>		—		(1)
<b>Balance, as of end of year</b>	\$	—	\$	—
				\$ 1

(1) These amounts are shown within amortization of policy acquisition costs in the statements of income

The following reflects the changes to the VOBA asset:

	Year ended		Eleven months ended
	December 31,		December 31,
	2022		2021
(\$ in millions)	Successor		Successor
<b>Balance, as of beginning of period</b>	\$	147	\$ 181
Amortized to expense during the period <sup>(1)</sup>		(28)	(34)
Adjustment for VOBA Write-off <sup>(2)</sup>		(56)	—
<b>Balance, as of end of period</b>	\$	63	\$ 147

(1) These amounts are shown within amortization of policy acquisition costs in the statements of income.

(2) Write-off of VOBA due to restructuring of GIC H which management determined an extinguishment. Refer to Note 14 - Related party transactions for additional information.

Estimated future amortization of VOBA as of December 31, 2022 (Successor) is as follows:

Years	VOBA
(\$ in millions)	
2023	\$ 21
2024	14
2025	12
2026	8
2027	5
2028 and thereafter	3
<b>Total</b>	<b>\$ 63</b>

## Notes to the Financial Statements

The following reflects the changes to the DRL:

	Year ended	Eleven months ended	One month ended
	December 31,	December 31,	January 31,
	2022	2021	2021
(\$ in millions)	Successor	Successor	Predecessor
<b>Balance, as of beginning of period</b>	\$ —	\$ —	\$ 2
Block acquisition/reinsurance	—	—	—
Amortized to expense during the year <sup>(1)</sup>	—	—	—
<b>Balance, as of end of year</b>	\$ —	\$ —	\$ 2

(1) These amounts are shown within Policy benefits and claims in the statements of income.

## 7. Policy liabilities

### Future policy benefits, contractholder deposit funds and other policy liabilities

Future policy benefits and contractholder deposit funds and other policy liabilities by product were as follows as of December 31, 2022 (Successor) and 2021 (Successor):

	2022	2021
	Contractholder deposit funds and other policy liabilities	Contractholder deposit funds and other policy liabilities
(\$ in millions)	Successor	Successor
Guaranteed investment contract	\$ 4,766	\$ 5,632
Whole Life	4,737	4,779
Other life	319	3
<b>Total</b>	<b>\$ 9,822</b>	<b>\$ 10,414</b>

## 8. Reinsurance

The Company maintains reinsurance treaties with third parties whereby the Company assumes whole life and universal life on a coinsurance basis, and universal life, on a Monthly Renewal Term, or "MRT," reinsurance basis.

Effective March 31, 2022, the Company entered into a coinsurance agreement with a third party whereby it assumed approximately \$163 million of universal life policies. Mortality risk was not transferred and as a result, the contract is accounted for using deposit accounting.

Effective May 30, 2022 and September 20, 2022, the Company entered into 2 coinsurance agreements with a third party whereby it assumed a combined \$153 million of 3-year fixed rate endowment policies. Mortality risk was not transferred and as a result, the contract is accounted for using deposit accounting.

Effective July 1, 2021, the Company entered into a coinsurance agreement with a third party whereby it assumed approximately \$4.8 billion of whole life policies. Mortality risk was not transferred and as a result, the contract is accounted for using deposit accounting.

Effective July 1, 2021, the Company entered into a funds withheld coinsurance agreement with a third party whereby it retroceded \$2.4 billion of whole life policies assumed. Mortality risk was not transferred and as a result, the contract is accounted for using deposit accounting.

# Notes to the Financial Statements

The effects of all reinsurance agreements on the balance sheets were as follows:

	As of December 31,	
	2022	2021
(\$ in millions)	Successor	Successor
<b>Policy liabilities:</b>		
Assumed - non-affiliated	5,055	4,781
<b>Total policy liabilities</b>	<b>\$ 5,055</b>	<b>\$ 4,781</b>
Ceded - non-affiliated <sup>(1)</sup>	(2,365)	(2,394)
<b>Net policy liabilities</b>	<b>\$ 2,690</b>	<b>\$ 2,387</b>

(1) Reported within reinsurance recoverable in the balance sheets.

A key credit quality indicator is a counterparty's A.M. Best financial strength rating. A.M. Best financial strength ratings are an independent opinion of a reinsurer's ability to meet ongoing obligations to policyholders. The Company mitigates counterparty credit risk by requiring collateral and credit enhancements in various forms including engaging in funds withheld at interest and modified coinsurance transactions. The following shows the amortized cost basis of the Company's reinsurance recoverable and funds withheld receivable at interest by credit quality indicator and any associated credit enhancements the Company has obtained to mitigate counterparty credit risk:

A.M. Best Rating <sup>(1)</sup>	As of December 31, 2022 (Successor)		
	Reinsurance recoverable and funds withheld receivable at interest <sup>(2)</sup>	Credit enhancements <sup>(3)</sup>	Net reinsurance credit exposure <sup>(5)</sup>
(\$ in millions)			
A++	\$ —	\$ —	\$ —
A+	—	—	—
A	—	—	—
A-	—	—	—
B++	—	—	—
B+	—	—	—
B	—	—	—
B-	—	—	—
Not rated or private rating <sup>(4)</sup>	2,372	1,735	637
<b>Total</b>	<b>\$ 2,372</b>	<b>\$ 1,735</b>	<b>\$ 637</b>

(1) Ratings are periodically updated (at least annually) as A.M. Best issues new ratings.

(2) At amortized cost, excluding any associated embedded derivative assets and liabilities

(3) Includes funds withheld payable at interest and deferred intangible reinsurance assets and liabilities.

(4) Includes \$2.4 billion associated with cessions to Ivy Re Limited, a Bermuda insurance company, and a subsidiary of Ivy Co-Invest Vehicle LLC, an unaffiliated co-investment vehicle that participates in qualifying reinsurance transactions sourced by the Company.

(5) Includes credit loss allowance of \$7.3 million as of December 31, 2022 (Successor), held against reinsurance recoverable.

Notes to the Financial Statements

A.M. Best Rating <sup>(1)</sup>	As of December 31, 2021 (Successor)		
	Reinsurance recoverable and funds withheld receivable at interest <sup>(2)</sup>	Credit enhancements <sup>(3)</sup>	Net reinsurance credit exposure
(\$ in millions)			
Not rated <sup>(4)</sup>	2,394	2,460	—
<b>Total</b>	<b>\$ 2,394</b>	<b>\$ 2,460</b>	<b>\$ —</b>

(1) Ratings are periodically updated (at least annually) as A.M. Best issues new ratings.

(2) At amortized cost, excluding any associated embedded derivative assets and liabilities

(3) Includes funds withheld payable at interest and deferred intangible reinsurance assets and liabilities.

(4) Includes \$2.4 billion associated with cessions to Ivy Re Limited, a Bermuda insurance company, and a subsidiary of Ivy Co-Invest Vehicle LLC, an unaffiliated co-investment vehicle that participates in qualifying reinsurance transactions sourced by the Company.

The Company determines the appropriate amount of reinsurance based on evaluation of the risks accepted and on market conditions (including the availability and pricing of reinsurance). The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk. Based on its review of its reinsurers' financial statements and reputations in the reinsurance marketplace, the Company held no allowance for bad debts as of December 31, 2022 (Successor) or 2021 (Successor).

The effects of reinsurance on the statements of income were as follows:

	Year ended December 31, 2022	Eleven months ended December 31, 2021	One month ended January 31, 2021
(\$ in millions)	Successor	Successor	Predecessor
<b>Premiums:</b>			
Assumed – non-affiliated	\$ 36	\$ 35	\$ 3
Ceded – non-affiliated	(6)	(6)	—
<b>Net premiums</b>	<b>\$ 30</b>	<b>\$ 29</b>	<b>\$ 3</b>

	Year ended December 31, 2022	Eleven months ended December 31, 2021	One month ended January 31, 2021
(\$ in millions)	Successor	Successor	Predecessor
<b>Policy benefits and claims:</b>			
Assumed - non-affiliated	122	85	4
Ceded - non-affiliated	(50)	(27)	(1)
<b>Net policy benefits and claims</b>	<b>\$ 72</b>	<b>\$ 58</b>	<b>\$ 3</b>

The Company holds collateral for and provides collateral to our reinsurance clients. The Company held \$2.5 billion of collateral on behalf of our reinsurers as of December 31, 2022 (Successor). A significant portion of the collateral that the Company provides to its reinsurance clients is provided in the form of assets held in a trust for the benefit of the counterparty. As of December 31, 2022 (Successor), these trusts were required to hold, and held in excess of, \$5.2 billion of assets to support reserves of \$5.1 billion.

Notes to the Financial Statements

## 9. Composition of other assets, liabilities, income, insurance expenses and general, administrative and other expenses

Other assets consist of the following:

	December 31, 2022	December 31, 2021
(\$ in millions)	Successor	Successor
Premiums and other account receivables	4	4
Miscellaneous assets <sup>(1)</sup>	334	—
Investments in process of settlement	52	35
<b>Total other assets</b>	<b>\$ 390</b>	<b>\$ 39</b>

(1) December 31, 2022 Includes related party notes receivable of \$334 million

Accrued expenses and other liabilities consist of the following:

	As of December 31,	
	2022	2021
(\$ in millions)	Successor	Successor
Accrued employee related expenses and Other	7	23
Investments in process of settlement	25	—
Miscellaneous accrued expenses and liabilities	1	—
<b>Total accrued expenses and other liabilities</b>	<b>\$ 33</b>	<b>\$ 23</b>

Insurance expenses consist of the following:

	Year ended December 31, 2022	Eleven months ended December 31, 2021
(\$ in millions)	Successor	Successor
Commission expense	4	—
Reinsurance expense allowance	4	1
Other insurance expenses	—	1
<b>Total insurance expenses</b>	<b>\$ 8</b>	<b>\$ 2</b>

General and administrative expenses consist of the following:

	Year ended December 31, 2022	Eleven months ended December 31, 2021	One month ended January 31, 2021
(\$ in millions)	Successor	Successor	Predecessor
Employee-related expenses	\$ 11	\$ 9	\$ 1
Administrative and professional services	2	2	—
Miscellaneous operating expenses	(6)	(6)	—
<b>Total general, administrative, and other expenses</b>	<b>\$ 7</b>	<b>\$ 5</b>	<b>\$ 1</b>



## Notes to the Financial Statements

## 10. Shareholders' equity

The maximum number of the Company shares authorized for issuance is 370,000 common shares at par value of \$1 per share.

The Company's capital structure included 370,000 common shares outstanding, with a par value of \$1 and did not have any dividends payable as of December 31, 2022 (Successor).

For the year ended December 31, 2022 (Successor) and eleven months ended December 31, 2021 (Successor), the Company has received in capital contributions from its parent \$184 million and \$200 million, respectively.

## 11. Accumulated other comprehensive income (loss)

Information regarding amounts reclassified out of each component of accumulated other comprehensive income (loss) for year ended December 31, 2022 (Successor), the eleven months ended December 31, 2021 (Successor) and one month ended January 31, 2021 (Predecessor) were as follows:

	Year ended December 31, 2022	Eleven months ended December 31, 2021	One month ended January 31, 2021
Components of accumulated other comprehensive income (loss) (\$ in millions)	Successor	Successor	Predecessor
<b>Net unrealized investment gains (losses) on AFS fixed maturity securities and other investments:</b>			
Net unrealized investment gains (losses)	(77)	(3)	1
<b>Net unrealized investment (losses) gains, reclassified</b>	<b>\$ (77)</b>	<b>\$ (3)</b>	<b>\$ 1</b>

## 12. Income taxes

As a Bermuda-based company, the Company is not subject to U.S. federal income taxes. Additionally, the Company is not subject to Bermuda income or capital gains tax under current Bermuda law. In the event that there is a change in current law such that taxes on income or capital gains are imposed, the Company would be exempt from such taxes until March 2035 pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966.

The Company may be subject to a variety of transfer pricing or permanent establishment challenges by taxing authorities in various jurisdictions. The completion of tax examinations may result in changes to the amounts recognized in the Company's financial statements.

## 13. Dividend restrictions and statutory information

### Bermuda

The Bermuda Insurance Act limits the ability of our Bermuda insurance subsidiaries to pay dividends or make capital distributions by stipulating certain margin and solvency requirements and by requiring approval from the Bermuda Monetary Authority, or the "BMA," prior to a reduction of 15% or more of an insurer's total statutory capital as reported on its prior year statutory balance sheet. Moreover, an insurer must submit an affidavit to the BMA, sworn by at least two directors and the principal representative in Bermuda of the respective Bermuda insurance subsidiary, at least seven days prior to payment of any dividend which would exceed 25% of an insurer's total statutory capital and surplus as reported on its

**Notes to the Financial Statements**

---

prior year statutory balance sheet. The affidavit must state that, in the opinion of those swearing, the declaration of such dividend has not caused the insurer to fail to meet its relevant margins (a “Bermuda Dividend Affidavit”). Accordingly, our Bermuda insurance subsidiaries may distribute up to (1) 100% of statutory surplus plus (2) an amount less than 15% of statutory capital, upon providing the BMA with a Bermuda Dividend Affidavit and meeting applicable solvency requirements, without BMA approval.

With respect to margin and solvency requirements, the Bermuda Insurance Act prohibits our Bermuda insurance subsidiaries from declaring or paying any dividends during any financial year if it is in breach of its solvency margin or if the declaration or payment of such dividends would cause such a breach. If the insurer has failed to meet its minimum solvency margin on the last day of any financial year, such insurer will also be prohibited, without the approval of the BMA, from declaring or paying any dividends during the next financial year. Our Bermuda insurance subsidiaries are also prohibited from declaring or paying a dividend where it has failed to comply with its enhanced capital requirement, until such noncompliance is rectified. At December 31, 2022, as a Class E insurer, the Company has a minimum solvency margin of approximately \$376 million. The Company has met its minimum solvency margin and minimum liquidity ratio and exceeded its enhanced capital requirements at December 31, 2022.

**Statutory financial information**

The Bermuda Insurance Act requires the Company to prepare and file statutory financial statements with the BMA in accordance with BMA prescribed or permitted practices that may differ from U.S. GAAP.

Bermuda statutory balance sheet placement differs from U.S GAAP primarily due to Bermuda Insurance Account Rules that permits the Company to measure the policyholder Liabilities net of Reinsurance Recoverable and due to a modification that permits the Company to reports the GIC as a reinsurance contract rather than traditional GIC.

Bermuda statutory surplus differs from U.S. GAAP primarily due to a modification that permits the Company to not measure the embedded derivative included within certain funds withheld coinsurance agreements at fair value and a modification that permits the Company to report the Synthetic GIC consistently with a GIC rather than as a derivative. Additionally, for certain reinsurance products the modifications can influence the timing of the amortization of policy acquisition expenses.

The Company’s statutory net income was \$124 million for the year ended December 31, 2022 , \$41 million for the eleven months ended December 31, 2021 (Successor),and \$10 million for the one month ended January 31, 2021 (Predecessor), respectively. See below for the company’s statutory capital and surplus as of December 31, 2022 (Successor). and December 31, 2021 (Predecessor)

**Capital requirements**

In Bermuda, the Company is subject to the Bermuda Solvency Capital Requirements, or “BSCR,” administered by the BMA. In prior years, no regulatory action was taken if an insurer’s statutory capital and surplus was equal to or in excess of their enhanced capital requirement determined by the BSCR model. In addition, the BMA has established a target capital level for each insurer, which is 120% of the enhanced capital requirement. The regulatory target capital represents the target capital level from the applicable year’s BSCR calculation. The Company was compliant with this requirement.:

## Notes to the Financial Statements

	As of December 31, 2022	As of December 31, 2021
(\$ in millions)	Successor	Successor
Enhanced capital requirement (unaudited)	720	735
Available statutory economic capital and surplus (unaudited)	2,427	2,447
Statutory capital and surplus	901	1,892

The Bermuda Insurance Act also requires our Bermuda insurance subsidiaries to maintain certain measures of solvency and liquidity. The Bermuda statutory financial statements form the basis for assessing our Bermuda insurance subsidiaries' liquidity, minimum solvency margin and class of registration. These financial statements in turn form the basis for the preparation of the insurer's economic balance sheet. Economic balance sheet is a principles-based valuation approach to determine an insurer's capital adequacy and is used as the basis for determination of the Bermuda insurance subsidiary's enhanced capital requirement.

## 14. Related party transactions

Upon the close of the acquisition of the Company's ultimate parent GAFG by KKR, the Company re-evaluated the parties that would be considered related or affiliated entities under the Company's policies subsequent to February 1, 2021. Based on the aforementioned re-evaluation, the Company determined that certain parties that had previously been considered related or affiliated were now considered non-affiliated entities given the sale of their equity interests in GAFG. Upon the close of the sale, Goldman Sachs, Pine Brook Capital Partners II (Cayman) AV, L.P., Safra Galileo Global Fund Ltd, and Centaurus Capital LP, or "Centaurus," are no longer considered affiliated or related parties. In addition, upon the close of the transaction, KKR and its affiliated entities are now considered related parties.

The Company has investment management agreements with KKR. KKR provides investment management services across the Company. The Company recorded expenses for these agreements of \$21 million and \$12 million for the years ended December 31, 2022 (Successor) and December 31, 2021 (Successor), respectively.

The Company had agreements with certain affiliates under GAFG. These affiliates agreed to provide personnel, management services, administrative support, the use of facilities, and such other services as the parties may agree from time to time. The Company recorded expenses of \$17 million, \$15 million and \$1 million for year ended December 31, 2022 (Successor), the eleven months ended December 31, 2021 (Successor) and one month ended January 31, 2021 (Predecessor), respectively. The Company had \$4 million and \$1 million payable as of December 31, 2022 (Successor) and December 31, 2021 (Successor).

On April 2, 2018, the Company issued a series of GICs to Global Atlantic Re, for a combined principal amount of \$5 billion in exchange the Company pays a guaranteed rate of return to Global Atlantic Re. Pursuant to the issuance of the GICs, the assets received by the Company were deposited in a trust, for the benefit of Global Atlantic Re. On October 1, 2019, one GIC was renewed with an additional principal amount of \$150 million. On September 1, 2020, The GICs were restructured with new interest rates and the stated maturities were extended between 0-4 years. On April 1, 2021, another GIC was renewed and subsequently matured on January 3, 2022. The next maturing GIC completed partial maturities on April 4, 2022 of \$120 million and October 4, 2022 of \$300 million with the remaining \$676 million outstanding balance extended at the existing terms. On October 1, 2022, three additional GIC were restructured to allow for partial maturities, accelerating expected cash flows. The Company has determined one of the restructured GIC is an extinguishment of contract.

**Notes to the Financial Statements**

The Company recorded interest expense of \$148 million, \$134 million and \$13 million for year ended December 31, 2022 (Successor), the eleven months ended December 31, 2021 (Successor) and one month ended January 31, 2021 (Predecessor), respectively. The carrying value of the GICs, including accrued interest of \$374 million was \$4.8 billion as of December 31, 2022 (Successor). The carrying value of the GICs, including accrued interest of \$335 million was \$5.6 billion as of December 31, 2021 (Successor).

On December 27, 2022, Global Atlantic (Fin) Company entered into a \$184 million loan with the Company. The loan had a maturity date of December 31, 2027 and annual interest rate of 4.21%.

On September 30, 2022, Global Atlantic (Fin) Company entered into a \$150 million loan with the Company. The loan had a maturity date of September 30, 2025 and annual interest rate of 3.03%.

On June 14, 2021, Global Atlantic Re entered into a \$70 million loan with the Company. The loan has a maturity date of July 30, 2021 and annual interest rate of 0.13%. On July 30, 2021, Global Atlantic Re repaid the maturing \$70 million loan along with accrued and unpaid interest.

The Company issued a series of Synthetic GICs to Global Atlantic Re, in which the actual investment returns paid to Global Atlantic Re on the funds withheld portfolios is transferred to the Company. In exchange, the Company pays a fixed crediting rate to Global Atlantic Re.

The Company had a derivative payable to Global Atlantic Re as of December 31, 2022 (Successor), and a derivative receivable from Global Atlantic Re as of December 31, 2021 (Successor) as follows:

	December 31, 2022	December 31, 2021
(\$ in millions)	Successor	Successor
Prior to 2022	(1,465)	391
Effective 2022	(12)	164
<b>Total derivative assets (liabilities)</b>	<b>\$ (1,477)</b>	<b>\$ 555</b>

The Company recorded derivative income (expense) as follows:

	Year ended December 31, 2022	Eleven months ended December 31, 2021	One month ended January 31, 2021
(\$ in millions)	Successor	Successor	Predecessor
Prior to 2022	(1,887)	(68)	(60)
Effective 2022	(9)	189	\$ —
<b>Total derivative income (expense)</b>	<b>\$ (1,896)</b>	<b>\$ 121</b>	<b>\$ (60)</b>

## **15. Commitments and contingencies**

### **Commitments**

The Company has commitments to purchase or fund investments of \$142 million as of December 31, 2022 (Successor). These commitments include those related to investments in limited partnerships. The commitment periods vary, with most extending for the next 3 years, but some extend longer. Some of these investment commitments may be subject to conditions that must be met prior to funding. For those commitments that represent a contractual obligation to extend credit, the Company has recorded a liability of \$1 million for current expected credit losses as of December 31, 2022 (Successor).

### **Legal matters**

The Company is involved from time to time in judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its business. Given the inherent difficulty of predicting the outcome of the Company's litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, the Company cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred.

## **16. Acquisition**

On February 1, 2021, KKR completed the acquisition of the Company's ultimate parent GAFG by TGAFG (formerly, Magnolia Parent LLC), a KKR subsidiary, as contemplated by the Merger Agreement. The total purchase price for the transaction was \$4.7 billion. The purchase price was financed by means of an equity contribution from the Company's parent of \$3.0 billion, with remainder being contributed by the \$0.8 billion of rollover equity interests and \$0.9 billion of new equity.

At the closing of the transaction, or the "Closing," Merger Sub (a direct wholly-owned subsidiary of TGAFG) merged with and into GAFG, or the "GA Merger," with GAFG continuing as the surviving entity and as a direct wholly-owned subsidiary of Magnolia, and immediately thereafter, GAFLL merged with and into GAFG, or the "Life Merger" and, together with the GA Merger, the "Mergers."

In connection with the Closing, Magnolia Parent LLC changed its name to The Global Atlantic Financial Group LLC and became the new holding company of GAFG and its subsidiaries' business. Also in connection with the Closing, certain previous shareholders of GAFG and GAFLL elected to participate in an equity roll-over to become shareholders of TGAFG, and new co-investors agreed to fund in cash a portion of the purchase price to become shareholders of TGAFG. Following these roll-overs, co-investments, and certain post-closing adjustments, KKR owns 61.5% of TGAFG. In addition, the aforementioned equity contribution and syndication process was used to generate \$250 million of additional equity capital to fund Global Atlantic's business needs.

The aggregate merger consideration was allocated among each of GAFG's and GAFLL's outstanding ordinary shares, incentive shares and equity awards in accordance with their terms. Under the terms of the Merger Agreement and in accordance with the applicable plan documentation, unvested GAFG restricted share awards converted into the right to receive a number of TGAFG book value units having the same value as the GAFG restricted share award immediately prior to the closing.

At the acquisition date, TGAFG made a decision to elect push down accounting in accordance with Accounting Standard Codification (ASC) 805, *Business Combinations*. Push down accounting is an

## Notes to the Financial Statements

accounting election available to entities that are acquired, whereby the acquired company can use the acquirer's new basis in the preparation of the acquiree's separate financial statements.

TGAFG assigned all goodwill under purchase accounting to Global Atlantic (Fin) Company (Finco). Therefore, the Company recorded \$0 value as Goodwill.

The table below details the allocation of consideration transferred to the fair value identifiable assets and liabilities acquired:

	February 1, 2021
(\$ in millions)	
<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
Cash and cash equivalents	\$ 66
Investments	7,035
Accrued investment income	35
Insurance intangibles	181
Policy liabilities	(5,602)
Accrued expenses and other liabilities	(7)
<b>Total identifiable net assets</b>	<b>\$ 1,708</b>
<b>Total consideration transferred</b>	<b>\$ 1,708</b>

The gross carrying value and weighted average estimated useful lives of value of business acquired pushed down to the Company consist of the following:

As of February 1, 2021	Gross carrying value	Weighted average useful life
	(\$ in millions)	(in years)
Value of business acquired	\$ 181	\$ 29

The Company performed a valuation of the acquired investments, policy liabilities, VOBA, other identifiable intangibles, and funds withheld at interest payables and receivables. The following is a summary of significant inputs to the valuation:

### Investments

The Company's investment portfolio primarily consists of fixed maturity securities, mortgage and other loan receivables. All of the assets included within the investment portfolio were measured and reported at their acquisition date fair value. As a result, the cost basis of each respective investment was reset to equal fair value.

The Company's fair value measurement for fixed maturity securities was based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include a third-party pricing service, independent broker quotations, or pricing matrices. The Company uses observable and unobservable inputs in its valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data.

The mortgage and other loan receivables fair value was established using a discounted cash flows method at interest rates appropriate for the credit rating of the borrower, tenor of the loan, maturity and future income, including uncertainty of cash flows. This yield-based approach is determined internally based on publicly available market data and indices sourced from a third-party vendor. The credit ratings

## Notes to the Financial Statements

---

for mortgages in good standing are based on property type, location, market conditions, occupancy, debt service coverage, loan-to-value, quality of tenancy, borrower and payment record.

### **Policy liabilities**

The Company predominantly issued funding agreement contracts as of February 1, 2021. Those contracts not already reported at fair value were remeasured based upon yields estimated using market data on funding agreements backed notes for comparable transactions of FABN A- rated yields.

### **Value of business acquired**

VOBA represents the estimated fair value of future net cash flows from in-force guaranteed interest contracts acquired at the acquisition date.

## **17. Subsequent event**

The Company evaluated all events and transactions through April 24, 2023, the date the accompanying financial statements were available to be issued, that would merit recognition or disclosures in the financial statements, and determined there were none.