

FINANCIAL STATEMENTS

Principal Financial Services (Bermuda) Ltd.

For the Period from April 24, 2023 (Date of Incorporation) to December 31, 2023

Financial Statements

Period Ended December 31, 2023

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Report of Independent Auditors

The Board of Directors
Principal Financial Services (Bermuda) Ltd.

Opinion

We have audited the financial statements of Principal Financial Services (Bermuda) Ltd. (the Company) which comprise the statement of financial position as of December 31, 2023, and the related statements of operations, comprehensive income, stockholder's equity, and cash flows for the period from April 24, 2023 (date of incorporation) to December 31, 2023, and the related notes (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 at December 31, 2023, and the results of its operations and its cash flows for the year ended 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 of material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of 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.



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- 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.

Ernst & Young LLP

Des Moines, Iowa
April 15, 2024

Principal Financial Services (Bermuda) Ltd.
Statement of Financial Position

December 31, 2023

(in thousands)

Assets

Cash and cash equivalents	\$	2,268
Premiums due and other receivables		27,098
Funds withheld receivable		4,115,423
Deferred acquisition costs		500,575
Deferred tax asset		1,806
Total assets	\$	4,647,170

Liabilities

Future policy benefits and claims	\$	4,302,420
Other policyholder funds		954
Other liabilities		1,723
Total liabilities		4,305,097

Stockholder's equity

Common stock, par value \$1 per share; 250 thousand shares authorized, issued and outstanding		250
Additional paid-in capital		348,616
Retained earnings		205,756
Accumulated other comprehensive loss		(212,549)
Total stockholder's equity		342,073
Total liabilities and stockholder's equity	\$	4,647,170

See accompanying notes.

Principal Financial Services (Bermuda) Ltd.
Statement of Operations

	<u>For the period ended December 31, 2023</u>	
	<i>(in thousands)</i>	
Revenues		
Premiums and other considerations	\$	53,383
Net investment income		56,403
Net realized capital gains		618
Change in fair value of funds withheld embedded derivative		240,977
Total revenues		<u>351,381</u>
Expenses		
Benefits, claims and settlement expenses		72,818
Liability for future policy benefits remeasurement gain		(26)
Operating expenses		18,139
Total expenses		<u>90,931</u>
Income before income taxes		260,450
Income taxes		54,694
Net income	\$	<u><u>205,756</u></u>

See accompanying notes.

Principal Financial Services (Bermuda) Ltd.
Statement of Comprehensive Income

	<u>For the period ended</u> <u>December 31, 2023</u>
	<i>(in thousands)</i>
Net income	\$ 205,756
Other comprehensive loss, net:	
Liability for future policy benefits discount rate remeasurement loss	<u>(212,549)</u>
Other comprehensive loss	<u>(212,549)</u>
Comprehensive loss	<u><u>\$ (6,793)</u></u>

See accompanying notes.

Principal Financial Services (Bermuda) Ltd.
Statement of Stockholder's Equity

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholder's equity
			<i>(in thousands)</i>		
Balances as of April 24, 2023	\$ —	\$ —	\$ —	\$ —	\$ —
Common stock issued	250	—	—	—	250
Capital contributions from parent	—	348,616	—	—	348,616
Net income	—	—	205,756	—	205,756
Other comprehensive loss	—	—	—	(212,549)	(212,549)
Balances as of December 31, 2023	<u>\$ 250</u>	<u>\$ 348,616</u>	<u>\$ 205,756</u>	<u>\$ (212,549)</u>	<u>\$ 342,073</u>

See accompanying notes.

Principal Financial Services (Bermuda) Ltd.
Statement of Cash Flows

	For the period ended December 31, 2023 <i>(in thousands)</i>
Operating activities	
Net income	\$ 205,756
Adjustments to reconcile net income to net cash used in operating activities:	
Net realized capital gains	(618)
Change in fair value of funds withheld embedded derivative	(240,977)
Amortization of deferred acquisition costs	5,744
Additions to deferred acquisition costs	(506,319)
Changes in:	
Premiums due and other receivables	(28,248)
Policyholder liabilities	4,034,325
Current and deferred income taxes	54,694
Funds withheld receivable	(3,872,678)
Other assets and liabilities	1,723
Net adjustments	<u>(552,354)</u>
Net cash used in operating activities	(346,598)
Investing activities	
Net cash provided by investing activities	—
Financing activities	
Issuance of common stock	250
Capital contributions from parent	348,616
Net cash provided by financing activities	<u>348,866</u>
Net increase in cash and cash equivalents	2,268
Cash and cash equivalents at beginning of period	—
Cash and cash equivalents at end of period	<u><u>\$ 2,268</u></u>

See accompanying notes.

Principal Financial Services (Bermuda) Ltd.
Notes to Financial Statements
December 31, 2023

1. Nature of Operations and Significant Accounting Policies

Description of Business

Principal Financial Services (Bermuda) Ltd. was incorporated as a Bermuda exempted company limited by shares on April 24, 2023, and registered as a Class C insurer under the Bermuda Insurance Act 1978. We reinsure long-term pension risk transfer (“PRT”) and term life insurance business assumed from an affiliate, Principal Life Insurance Company (“PLIC”). We are a direct wholly owned subsidiary of Principal Bermuda Holding, LLC, which in turn is a direct wholly owned subsidiary of Principal Financial Services, Inc. (“PFS”), which in turn is a direct wholly owned subsidiary of Principal Financial Group, Inc. (“PFG”).

Basis of Presentation

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”). Amounts are reported in U.S. dollars, which is our functional currency.

Uncertainties may impact our business, results of operations, financial condition and liquidity. See “Use of Estimates in the Preparation of Financial Statements” for additional details. Our estimates and assumptions could change in the future. Our results of operations and financial condition may also be impacted by other uncertainties including evolving regulatory, legislative and standard-setter accounting interpretations and guidance.

During the fourth quarter of 2023, we closed a coinsurance with funds withheld reinsurance transaction with PLIC, pursuant to which we assumed certain PRT and term life insurance blocks of business. See Note 5, Reinsurance, for further details.

We evaluated subsequent events through April 15, 2024, which was the date our financial statements were issued.

Recent Accounting Pronouncements

Description	Date of adoption	Effect on our financial statements or other significant matters
<i>Standards not yet adopted:</i>		
Improvements to income tax disclosures This authoritative guidance provides improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information.	January 1, 2025	We are currently evaluating the impact this guidance will have on our financial statements.
<i>Standards adopted:</i>		
Targeted improvements to the accounting for long-duration insurance contracts This authoritative guidance updated certain requirements in the accounting for long-duration insurance and annuity contracts. <ol style="list-style-type: none"> 1. The assumptions used to calculate the liability for future policy benefits on traditional and limited-payment contracts are reviewed and updated periodically. Cash flow assumptions are reviewed at least annually and updated when necessary 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 and are updated quarterly with the impact recognized in other comprehensive income (“OCI”). 2. Deferred acquisition costs (“DAC”) for all insurance and annuity contracts are amortized on a constant basis over the expected term of the related contracts. 	January 1, 2023	This guidance is used to account for amounts associated with our assumed PRT and term life insurance blocks of business. Further details about the levels of aggregation used for disclosures are included under the caption “Long-Duration Insurance Contracts Disclosures.” The additional disclosure requirements can be found in the following notes: Note 3, Deferred Acquisition Costs

Principal Financial Services (Bermuda) Ltd.
Notes to Financial Statements – (continued)
December 31, 2023

Description	Date of adoption	Effect on our financial statements or other significant matters
3. Additional disclosures are required, including disaggregated rollforwards of significant insurance liabilities and other account balances as well as disclosures about significant inputs, judgments, assumptions and methods used in measurement.		Note 4, Future Policy Benefits and Claims

When we adopt new accounting standards, we have a process in place to perform a thorough review of the pronouncement, identify the financial statement and system impacts and create an implementation plan to ensure we are compliant with the pronouncement on the date of adoption. This includes having effective processes and controls in place to support the reported amounts. Each of the standards listed above is in varying stages in our implementation process based on its issuance and adoption dates. We are on track to implement guidance by the respective effective dates.

Long-Duration Insurance Contracts Disclosures

We include disaggregated rollforwards for DAC and the liability for future policy benefits. Further, for certain actuarial balances, disclosures are required for the significant inputs, judgments, assumptions and methods used in measurement, including changes in those inputs, judgments and assumptions, and the effect of those changes on measurement.

Factors to consider in determining the level of aggregation for disclosures include the type of coverage, geography and market or type of customer. We have identified the following levels of aggregation for disclosures.

Pension risk transfer: Single premium group annuities offered to pension plan sponsors and other institutions and
Term life: Term life insurance products offered to individuals and/or business owners.

Use of Estimates in the Preparation of Financial Statements

The preparation of our financial statements and accompanying notes requires management to make estimates and assumptions that affect the amounts reported and disclosed. These estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed in the financial statements and accompanying notes. The most critical estimates include those used in determining:

the liability for future policy benefits and claims, including the deferred profit liability and accounting for income taxes and the valuation of deferred tax assets.

A description of such critical estimates is incorporated within the discussion of the related accounting policies that follow. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, money market instruments and other debt issues with a maturity date of three months or less when purchased. As of December 31, 2023, we only had cash on hand. During the period ended December 31, 2023, we earned interest of \$268 thousand on that cash, which was recorded in net investment income on the statement of operations.

Policyholder Liabilities

Policyholder liabilities (future policy benefits and claims and other policyholder funds) include reserves for group annuities that provide periodic income payments and term life insurance.

Principal Financial Services (Bermuda) Ltd.
Notes to Financial Statements – (continued)
December 31, 2023

For traditional and limited-payment long-duration contracts, we review and update, if necessary, assumptions used to measure cash flows for the liability for future policy benefits during the third quarter of each year, or more frequently if evidence suggests assumptions should be revised. The change in our liability estimate as a result of updating cash flow assumptions is recognized in net income. Actual cash flows are grouped into issue-year cohorts for the liability calculation and updated quarterly. Cohorts are used as the unit of account for liability measurement. Discount rate assumptions are prescribed as the current upper-medium grade (low-credit-risk) fixed-income instrument yield. The discount rate is updated quarterly at each reporting date with the impact recognized in OCI.

Refer to Note 4, Future Policy Benefits and Claims, under the caption “Long-Duration Contracts” for information about the calculation of reserves for long-duration insurance and annuity contracts.

Recognition of Premiums and Other Considerations and Benefits

Premiums from term life insurance products are recognized as premium revenue when due. Related policy benefits and expenses for individual life products are associated with earned premiums and result in the recognition of profits over the expected term of the policies and contracts.

Immediate annuities with life contingencies include products with fixed and guaranteed annuity considerations and benefits and consist principally of group single premium annuities with life contingencies. Annuity considerations from these products are recognized as premium revenue. However, the collection of these annuity considerations does not represent the completion of the earnings process, as we establish annuity reserves using estimates for mortality and interest assumptions. We anticipate profits to emerge over the life of the annuity products as we earn investment income, pay benefits and release reserves. Any gross premium received in excess of the net premium is recognized as a deferred profit liability and amortized in relation to the expected future benefit payments. See Note 4, Future Policy Benefits and Claims, for additional details.

Deferred Acquisition Costs

DAC is amortized on a constant level basis over the expected life of the related contracts. Refer to Note 3, Deferred Acquisition Costs, for information related to DAC on insurance policies.

Reinsurance

We report assets and liabilities related to actuarial balances assumed from PLIC on the statement of financial position. Premiums and expenses are reported on the statement of operations.

We record a funds withheld receivable for assets withheld by PLIC that back the amounts we assume. The funds withheld receivable contains an embedded derivative as the total return we receive on the assets is not based on PLIC’s creditworthiness. The fair value of the embedded derivative is estimated based on the change in fair value of the assets held by PLIC supporting the funds withheld receivable. The change in fair value of the funds withheld embedded derivative is separately reported on the statement of operations.

For further information about reinsurance, refer to Note 5, Reinsurance.

Income Taxes

We will be making an election under Section 953(d) of the U.S. Internal Revenue Code to be taxed as a U.S. entity. We are taxed at corporate rates on taxable income based on existing tax laws. Current income taxes are charged or credited to net income based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year.

Deferred income taxes are provided for the tax effect of temporary differences in the financial reporting and income tax bases of assets and liabilities, net operating loss carryforwards and tax credit carryforwards using enacted income tax rates and laws. We evaluate the recoverability of our deferred tax assets and establish a valuation allowance, if necessary, to reduce our deferred tax assets to an amount that is more-likely-than-not to be realizable. In determining the need for a valuation allowance, we consider many factors, including future reversals of temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior carryback years and implementation of any feasible and prudent tax planning strategies management would employ to realize the tax benefit.

Principal Financial Services (Bermuda) Ltd.
Notes to Financial Statements – (continued)
December 31, 2023

The effect on deferred income tax assets and deferred income tax liabilities of a change in tax rates is recognized in net income in the period in which the change is enacted. Subsequent to a change in tax rates and laws, any stranded tax effects remaining in accumulated other comprehensive income (“AOCI”) will be released only if an entire portfolio is liquidated, sold or extinguished.

2. Related Party Transactions

Reinsurance

We and an affiliated entity, PLIC, are parties to coinsurance with funds withheld reinsurance agreements under which we reinsure certain PRT and term life insurance blocks of business. Under these agreements, we had assumed assets and liabilities of \$880 thousand and \$4,303,374 thousand as of December 31, 2023, respectively. As of December 31, 2023, we had a \$26,218 thousand receivable from PLIC and a \$1,723 thousand payable to PLIC associated with the settlement statements for PRT and term life, respectively, under these agreements. In addition, we recognized premiums and benefits of \$53,383 thousand and \$72,792 thousand, for the period ended December 31, 2023, respectively, associated with these agreements. Furthermore, we recognized operating expense of \$378,083 thousand for the period ended December 31, 2023, related to the ceding commission and expense allowance associated with these agreements.

For further information about the funds withheld receivable associated with the reinsurance agreements, refer to Note 5, Reinsurance.

Affiliate Support and Reimbursement Agreement

We have an affiliate support and reimbursement agreement with PLIC and PFS under which we use certain of PLIC’s resources and services to increase administrative efficiencies and provide reimbursement for the associated expenses. We did not incur any expense for the period ended December 31, 2023.

Investment Management Agreement

We have an investment management agreement with Principal Global Investors, LLC (“PGI LLC”) under which PGI LLC provides asset management services for the assets held in our general account. We did not incur any asset management fee expense for the period ended December 31, 2023.

Capital Maintenance Agreement

We have a capital maintenance agreement with PFS to ensure a source of capital if our regulatory capital falls below defined limits. We did not receive any support under this agreement for the period ended December 31, 2023.

3. Deferred Acquisition Costs

Incremental direct costs of contract acquisition as well as certain costs directly related to acquisition activities for the successful acquisition of new and renewal insurance policies are capitalized in the period they are incurred. Maintenance costs and acquisition costs that are not deferrable are charged to operating expenses as incurred.

For our long-duration insurance products, DAC is amortized on a constant level basis over the expected life of the contracts using groupings and assumptions consistent with those used in computing policyholder liabilities. For each of our long-duration insurance products, we select an inforce measure as a basis for amortization that will result in a constant level amortization pattern for the expected life of the contract. If our actual contract terminations differ from our expectation, the amortization pattern is adjusted on a prospective basis.

Some of our life products have renewal commissions resulting in new DAC capitalizations in the years following the initial capitalization. We also have life products that allow for underwritten death benefit increases and cost of living adjustments, resulting in an immaterial amount of new DAC capitalizations each year. The new capitalizations are added to the existing DAC balance when incurred and amortized over the remaining life of the business.

Principal Financial Services (Bermuda) Ltd.
Notes to Financial Statements – (continued)
December 31, 2023

We review and update actuarial experience assumptions (such as mortality, surrenders, lapse, and premium persistency) serving as inputs to the models that establish the expected life for DAC during the third quarter of each year, or more frequently if evidence suggests assumptions should be revised. We make model refinements, as necessary, and any changes resulting from these assumption updates are applied prospectively.

DAC amortization expense of \$5,744 thousand related to our long-duration contracts was recorded in operating expenses on the statement of operations for the period ended December 31, 2023.

The following table summarizes disaggregated DAC amounts reported in the statement of financial position.

	December 31, 2023
	<i>(in thousands)</i>
Pension risk transfer	\$ 235,590
Term life	264,985
Total DAC per statement of financial position	\$ 500,575

The balances and changes in DAC were as follows:

	For the period ended December 31, 2023	
	Pension risk transfer	Term life
	<i>(in thousands)</i>	
Balance at beginning of period	\$ —	\$ —
Costs deferred	238,009	268,310
Amortized to expense	(2,419)	(3,325)
Balance at end of period	\$ 235,590	\$ 264,985

4. Future Policy Benefits and Claims

Future policy benefits and claims include reserves for long-duration contracts.

The following table summarizes disaggregated amounts included in future policy benefits and claims and reconciles the total to the statement of financial position.

	December 31, 2023
	<i>(in thousands)</i>
Liability for future policy benefits (1):	
Pension risk transfer	\$ 4,030,224
Term life	259,489
Total liability for future policy benefits	4,289,713
Reconciling items:	
Other (2)	12,707
Future policy benefits and claims per statement of financial position	\$ 4,302,420

(1) Amounts include the deferred profit liability.

(2) Includes other miscellaneous reserves.

Principal Financial Services (Bermuda) Ltd.
Notes to Financial Statements – (continued)
December 31, 2023

Long-Duration Contracts

Gross Premiums and Interest Accretion

The amount of gross premiums and interest accretion recognized in the statement of operations was as follows:

	For the period ended December 31, 2023	
	Gross premiums (1)	Interest accretion (2)
	<i>(in thousands)</i>	
Pension risk transfer	\$ —	\$ 54,673
Term life	53,839	2,989
Total per statement of operations	\$ 53,839	\$ 57,662

- (1) Gross premiums are included within premiums and other considerations on the statement of operations.
(2) Interest accretion is included within benefits, claims and settlement expenses on the statement of operations.

Liability for Future Policy Benefits

The liability for future policy benefits for group annuities is generally equal to the present value of expected future policy benefit payments. The reserves are computed using assumptions for mortality and interest. Mortality rate assumptions are based on our experience and are periodically reviewed against both industry standards and experience. The liability for future policy benefits for term life insurance is generally equal to the present value of expected future policy benefit payments less the present value of expected net premiums. The reserves are computed using assumptions for mortality, interest, morbidity and lapse.

An interest accretion rate is determined for an identified cohort and remains unchanged after the issue year. For policies issued on or prior to December 31, 2020, the interest accretion rate is based on the assumed investment yield when the business was issued. For policies issued after December 31, 2020, the interest accretion rate is based on the upper-medium grade fixed-income instrument yields, which is generally equivalent to a single-A rated bond yield matched to the duration of our insurance liabilities, when the business was issued.

The liability for future policy benefits is remeasured to reflect current upper-medium grade fixed-income instrument yields as of each reporting date. The liability is calculated by discounting cash flows using rate curves reflecting the currency and duration of the insurance liabilities. For discount rate tenors, or points on the curves, where the upper-medium grade fixed-income instrument yields are not liquid or limited observable market data is available, we use various estimation techniques consistent with fair value measurement guidance.

Further details regarding reference rates used are included under “Interest Accretion and Current Discount Rates.”

Principal Financial Services (Bermuda) Ltd.
Notes to Financial Statements – (continued)
December 31, 2023

The balances and the changes in the present value for expected net premiums and expected future policy benefits were as follows:

	For the period ended December 31, 2023	
	Pension risk transfer	Term life
	<i>(\$ in thousands)</i>	
Present value of expected net premiums		
Balance at beginning of period	\$ —	\$ —
Effect of actual variances from expected experience	—	21,911
Adjusted beginning of period balance at original discount rate	—	21,911
Interest accrual	—	20,597
Net premiums collected	—	(36,225)
Issuances	—	1,415,761
Balance at end of period at original discount rate	—	1,422,044
Effect of changes in discount rate assumptions at end of period	—	138,101
Balance at end of period	\$ —	\$ 1,560,145
Present value of expected future policy benefit payments		
Balance at beginning of period	\$ —	\$ —
Effect of actual variances from expected experience	—	21,885
Adjusted beginning of period balance at original discount rate	—	21,885
Interest accrual	54,673	23,586
Benefit payments	(97,602)	(17,678)
Issuances	3,848,882	1,608,962
Balance at end of period at original discount rate	3,805,953	1,636,755
Effect of changes in discount rate assumptions at end of period	224,271	182,879
Balance at end of period	\$ 4,030,224	\$ 1,819,634
Future policy benefits (1)	\$ 4,030,224	\$ 259,489
Weighted-average duration for future policy benefits (years) (2)	8.2	18.4

(1) Represents the present value of expected future policy benefit payments less the present value of expected net premiums.

(2) Represents the average of the cohort-level duration of the benefits less the net premium cash flows weighted by the reserve balance for each cohort.

Upper-medium grade fixed-income instrument yields decreased during the period ended December 31, 2023, resulting in an increase to the liability for future policy benefits of \$224,271 thousand for Pension risk transfer and \$44,778 thousand for Term life.

See “Interest Accretion and Current Discount Rates” for further details.

Principal Financial Services (Bermuda) Ltd.
Notes to Financial Statements – (continued)
December 31, 2023

Expected Future Gross Premiums and Benefit Payments

The amounts of expected undiscounted future benefit payments, expected undiscounted future gross premiums and expected discounted future gross premiums, utilizing the current upper-medium fixed-income instrument yield, were as follows:

	December 31, 2023
	<i>(in thousands)</i>
Pension risk transfer	
Expected undiscounted future benefit payments	\$ 5,295,345
Term life	
Expected discounted future gross premiums	\$ 2,328,580
Expected undiscounted future gross premiums	\$ 3,949,234
Expected undiscounted future benefit payments	\$ 3,240,394

Interest Accretion and Current Discount Rates

The interest accretion rate shown for each level of aggregation is an average of the cohort-level accretion rates weighted by the reserve balance for each cohort within that level of aggregation. The current discount rate is calculated at a cohort-level based on current upper-medium fixed-income instrument yields and weighted by the reserve balance for each cohort within each level of aggregation. The weighted-average rates were as follows:

	December 31, 2023	
	Interest accretion rate	Current discount rate
Pension risk transfer	5.90 %	4.99 %
Term life	6.14 %	5.07 %

5. Reinsurance

During the fourth quarter of 2023, we closed a coinsurance with funds withheld reinsurance transaction with PLIC in which we assumed certain PRT and term life blocks of business. For further information about this transaction, refer to Note 1, Nature of Operations and Significant Accounting Policies, and Note 2, Related Party Transactions.

Funds Withheld

The following assets were held by PLIC in support of the reserves associated with our coinsurance with funds withheld agreements. Certain assets are reported at amortized cost while the fair value of those assets is reflected in the funds withheld receivable.

	December 31, 2023
	<i>(in thousands)</i>
Fixed maturities, available-for-sale	\$ 3,633,201
Mortgage loans	440,112
Cash and cash equivalents	123,611
Accrued interest income	44,687
Net other liabilities	(124,099)
Net assets carrying value	4,117,512
Difference between carrying value and fair value	(2,089)
Net assets fair value (1)	\$ 4,115,423

(1) This amount is reported as funds withheld receivable on the statement of financial position.

As of December 31, 2023, the funds withheld receivable included a \$240,977 thousand embedded derivative asset. The change in fair value of the embedded derivative was a gain of \$240,977 thousand for the period ended December 31, 2023.

Principal Financial Services (Bermuda) Ltd.
Notes to Financial Statements – (continued)
December 31, 2023

While the economic benefits of the funds withheld assets flow to us, PLIC retains legal ownership of the assets within the funds withheld account. PLIC holds the assets in a legally segregated account that is used exclusively for purposes of the reinsurance agreements. Guidelines are in place to ensure the investment risk is appropriately managed.

Following are the components of net investment income on the funds withheld assets that were passed to us from PLIC.

	For the period ended December 31, 2023
	<i>(in thousands)</i>
Fixed maturities, available-for-sale	\$ 50,060
Mortgage loans	6,158
Cash and cash equivalents	956
Other	(52)
Gross investment income	57,122
Investment expenses	(987)
Net investment income	\$ 56,135

Following are the components of net realized capital gains (losses) on the funds withheld assets that were passed to us from PLIC.

	For the period ended December 31, 2023
	<i>(in thousands)</i>
Fixed maturities, available-for-sale	\$ 522
Mortgage loans	96
Net realized capital gains	\$ 618

6. Income Taxes

Income Taxes

Our income taxes were as follows:

	For the period ended December 31, 2023
	<i>(in thousands)</i>
Deferred income taxes:	
U.S. federal	\$ 54,694
Total deferred income taxes	54,694
Income taxes	\$ 54,694

Effective Income Tax Rate

We will be making an election under Section 953(d) of the U.S. Internal Revenue Code to be taxed as a U.S. entity. Our provision for income taxes may not have the customary relationship of taxes to income. For the period ended December 31, 2023, our effective tax rate was equal to the U.S. corporate income tax rate of 21%.

Effects of Tax Legislation

On December 27, 2023, Bermuda enacted the Corporate Income Tax Act of 2023. The enacted law introduces a 15% corporate income tax rate (“CIT”) on Bermuda businesses that are part of multinational enterprise groups with annual revenue of EUR 750 million or more. Generally, the effective date for the CIT is January 1, 2025; however, changes in tax law are recorded in the period of enactment. As of December 31, 2023, we recorded a net deferred tax asset of \$3,946 thousand and a full valuation allowance of the same amount as incremental Bermuda taxes are not anticipated to be incurred for purposes of utilizing the future deduction as Bermuda allows a foreign tax credit for U.S. taxes paid by 953(d) companies against the Bermuda CIT.

Principal Financial Services (Bermuda) Ltd.
Notes to Financial Statements – (continued)
December 31, 2023

Net Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Our significant components of net deferred income taxes were as follows:

	December 31, 2023
	<i>(in thousands)</i>
Deferred income tax assets:	
Insurance liabilities	\$ 178,493
Net operating loss carryforwards	19,397
Gross deferred income tax assets	197,890
Valuation allowance	(3,946)
Total deferred income tax assets	193,944
Deferred income tax liabilities:	
Deferred acquisition costs	(105,121)
Funds withheld embedded derivative	(87,017)
Total deferred income tax liabilities	(192,138)
Total net deferred income tax assets	\$ 1,806

Our net deferred income taxes by jurisdiction were as follows:

	December 31, 2023
	<i>(in thousands)</i>
Deferred income tax assets:	
U.S. federal	\$ 1,806
Net deferred income tax assets	1,806
Total net deferred income tax assets	\$ 1,806

As of December 31, 2023, we had net operating loss carryforwards for U.S. federal income tax purposes of \$19,397 thousand. The net operating loss carryforwards have an indefinite life.

Other Tax Information

We did not have unrecognized tax benefits as of December 31, 2023, and did not recognize interest or penalties for the period ended December 31, 2023. Our income tax returns are filed in the U.S. federal jurisdiction and subject to examination by the Internal Revenue Service.

7. Stockholder's Equity

Other Comprehensive Loss

	For the period ended December 31, 2023		
	Pre-Tax	Tax	After-Tax
	<i>(in thousands)</i>		
Liability for future policy benefits discount rate remeasurement loss (1)	\$ (269,049)	\$ 56,500	\$ (212,549)
Other comprehensive loss	\$ (269,049)	\$ 56,500	\$ (212,549)

(1) Includes the discount rate remeasurement gain (loss) associated with the liability for future policy benefits. See Note 4, Future Policy Benefits and Claims, under the caption "Liability for Future Policy Benefits" for further details.

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Notes to Financial Statements – (continued)
December 31, 2023

Accumulated Other Comprehensive Loss

	For the period ended December 31, 2023	
	LFPB discount rate remeasurement gain (loss)	Accumulated other comprehensive income (loss)
	<i>(in thousands)</i>	
Balance at beginning of period	\$ —	\$ —
Other comprehensive loss	(212,549)	(212,549)
Balance at end of period	\$ (212,549)	\$ (212,549)

8. Fair Value Measurements

We use fair value measurements to record fair value of certain assets and to estimate fair value of financial instruments not recorded at fair value but required to be disclosed at fair value.

Valuation Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety considering factors specific to the asset or liability.

Level 1 – Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Fair values are based on inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Fair values are based on at least one significant unobservable input for the asset or liability.

Determination of Fair Value

The following discussion describes the valuation methodologies and inputs used for assets measured at fair value on a recurring basis. The techniques utilized in estimating the fair value of financial instruments are reliant on the assumptions used. Care should be exercised in deriving conclusions about our business, its value or financial position based on the fair value information of financial instruments presented below.

Fair value estimates are made based on available market information and judgments about the financial instrument at a specific point in time. Such estimates do not consider the tax impact of the realization of unrealized gains or losses. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial instrument. We rely on PLIC's fair value estimates for the funds withheld receivable embedded derivative discussed below. PLIC validates prices through an investment analyst review process, which includes validation through direct interaction with external sources, review of recent trade activity or use of internal models. In circumstances where broker quotes are used to value an instrument, PLIC generally receives one non-binding quote. Broker quotes are validated through an investment analyst review process, which includes validation through direct interaction with external sources and use of internal models or other relevant information. PLIC did not make any significant changes to its valuation processes during 2023.

Funds Withheld Receivable

The funds withheld receivable includes an embedded derivative that has been bifurcated from the host contract and is measured at fair value on a recurring basis, which is reflected in Level 3. The fair value is determined based on the change in the estimated fair value of the underlying funds withheld investments held by PLIC. See Note 5, Reinsurance, under the caption "Funds Withheld" for a summary of the underlying investments. The fair value of these assets is determined using public quotations, when available; pricing from third party pricing vendors; internal pricing models or broker quotes. Due to the highly liquid nature of some of the assets, carrying amounts are used to approximate fair values.

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December 31, 2023

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis were as follows:

	December 31, 2023				
	Assets/ (liabilities) measured at fair value	Amount measured at net asset value	Fair value hierarchy level		
			Level 1	Level 2	Level 3
			<i>(in thousands)</i>		
Assets					
Funds withheld receivable embedded derivative (1)	\$ 240,977	\$ —	\$ —	\$ —	\$ 240,977
Total assets	\$ 240,977	\$ —	\$ —	\$ —	\$ 240,977

(1) Includes bifurcated embedded derivative that is reported at fair value within the same line item in the statement of financial position in which the host contract is reported. The funds withheld receivable embedded derivative could be in either an asset or (liability) position.

Changes in Level 3 Fair Value Measurements

The reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) was as follows:

For the period ended December 31, 2023						
Beginning asset/ (liability) balance as of January 1, 2023	Total realized/unrealized gains (losses)		Net purchases, sales, issuances and settlements	Transfers into Level 3	Transfers out of Level 3	Ending asset/ (liability) balance as of December 31, 2023
	Included in net income (1)	Included in other comprehensive income				
<i>(in thousands)</i>						
Assets						
Funds withheld receivable embedded derivative	\$ —	\$ 240,977	\$ —	\$ —	\$ —	\$ 240,977

(1) Mark-to-market unrealized gains (losses) are reported in change in fair value of funds withheld embedded derivative within the statement of operations and relate to positions still held.

Financial Instruments Not Reported at Fair Value

The carrying value and estimated fair value of financial instruments not recorded at fair value on a recurring basis but required to be disclosed at fair value were as follows:

	December 31, 2023				
	Carrying amount	Fair value	Fair value hierarchy level		
			Level 1	Level 2	Level 3
			<i>(in thousands)</i>		
Assets (liabilities)					
Cash and cash equivalents	\$ 2,268	\$ 2,268	\$ 2,268	\$ —	\$ —

Principal Financial Services (Bermuda) Ltd.
Notes to Financial Statements – (continued)
December 31, 2023

9. Statutory Insurance Financial Information

We are licensed by the Bermuda Monetary Authority (“BMA”) as a Class C insurer under the Bermuda Insurance Act 1978. Under the Bermuda Solvency and Capital Requirement (“BSCR”) framework, we must produce three sets of financial statements.

GAAP Financial Statements: Financial statements prepared in accordance with an internationally recognized comprehensive basis of accounting. We have elected to prepare U.S. GAAP financial statements, which form the basis for both the Statutory Financial Statements (“SFS”) and Economic Balance Sheet (“EBS”).

SFS: The U.S. GAAP financial statements are adjusted to apply prudential filters that eliminate assets such as goodwill and other intangible assets that are not considered admissible for solvency purposes. The SFS is also adjusted based upon directions or permitted practices issued by the BMA.

EBS: This is a balance sheet where assets are recorded based on U.S. GAAP fair values and insurance reserves are based on technical provisions comprised of a best estimate liability plus a risk margin.

For the SFS, we received the following permitted practices from the BMA that address mismatches in the interest rate discounting used for the valuation of assets and liabilities under U.S. GAAP.

Remove the embedded derivative from the funds withheld receivable;
 Report general account fixed maturities, available-for-sale at amortized cost and
 Exclude the impact of the change between current and original discount rates from the liability for future policy benefits.

The effect of the permitted practices to the SFS were as follows:

		<u>As of or for the period ended December 31, 2023</u>
		<i>(in thousands)</i>
Increase to statutory capital and surplus	\$	22,177
Decrease to statutory net income		(190,372)

Under the Bermuda Insurance Act 1978, long-term reinsurers are required to maintain minimum statutory capital and surplus to meet the minimum solvency margin (“MSM”) and minimum economic statutory capital and surplus to meet the Enhanced Capital Requirement (“ECR”). The MSM is equal to the greater of \$500 thousand or 1.5% of total statutory assets, with a floor of 25% of the ECR. The ECR is calculated using the risk-based capital model where risk factor charges are applied to the EBS. As of December 31, 2023, our statutory capital and surplus met the minimum level required.

Under the Bermuda Insurance Act 1978, we are prohibited from paying a dividend in an amount exceeding 25% of the prior year’s statutory capital and surplus, unless at least two members of our board of directors and our principal representative in Bermuda sign and submit an affidavit to the BMA attesting that a dividend in excess of this amount would not cause us to fail to meet relevant margins. In certain instances, we would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event such an affidavit is submitted to the BMA, and further subject to meeting the MSM and ECR requirements, we are permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of statutory capital. Distributions in excess of this amount require BMA approval.