

Audited Financial Statements

Kuvare Life Re Ltd.

For the Years Ended December 31, 2018 and 2017

With Report of Independent Auditors

Kuvare Life Re Ltd.
Audited Financial Statements
For the Years Ended December 31, 2018 and 2017

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Ernst & Young Ltd.
3 Bermudiana Road
Hamilton HM 08
P.O. Box HM 463
Hamilton HM BX
BERMUDA

Tel: +1 441 295 7000
Fax: +1 441 295 5193
ey.com

Report of Independent Auditors

The Board of Directors
Kuvare Life Re Ltd.

We have audited the accompanying financial statements of Kuvare Life Re Ltd., which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, changes in shareholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kuvare Life Re Ltd., at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young Ltd.

Hamilton, Bermuda
April 29, 2019

Kuvare Life Re Ltd.

Balance Sheets

As at December 31, 2018 and 2017

(expressed in U.S. dollars)

| | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Assets | | |
| Cash and cash equivalents | 5,599,294 | 196,164 |
| Restricted cash | 4,428,025 | 96,853 |
| Fixed maturity securities, at fair value (notes 3 and 5) | 68,500,299 | 33,143,647 |
| Other investments (note 3) | 16,162,875 | - |
| Derivative assets (notes 4 and 5) | - | 13,344,126 |
| Funds withheld (note 4) | 2,089,271,983 | 583,577,170 |
| Total cash and invested assets | 2,183,962,476 | 630,357,960 |
| Accrued investment income | 1,150,599 | 321,729 |
| Prepaid expenses | 9,306 | 15,275 |
| Accounts receivable | 763,260 | 3,805,920 |
| Total assets | 2,185,885,641 | 634,500,884 |
| Liabilities | | |
| Future policy benefit reserves (note 4) | 1,503,404,768 | - |
| Deposit liability (note 4) | 514,843,156 | 557,925,053 |
| Derivative liabilities (notes 4 and 5) | 69,008,745 | - |
| Deferred ceding commission | 9,041,429 | - |
| Deferred profit liabilities (note 6) | 65,631,300 | - |
| Accounts payable and accrued expenses | 5,532,585 | 1,326,167 |
| Total liabilities | 2,167,461,983 | 559,251,220 |
| Shareholder's equity | | |
| Share capital (note 7) | 250,000 | 250,000 |
| Additional paid-in capital (note 7) | 102,119,428 | 60,181,456 |
| Retained earnings / (accumulated deficit) | (83,945,770) | 14,818,208 |
| Total shareholder's equity | 18,423,658 | 75,249,664 |
| Total liabilities and shareholder's equity | 2,185,885,641 | 634,500,884 |



Director

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

Kuvare Life Re Ltd.

Statements of Operations

For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

| | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Revenues | | |
| Funds withheld | | |
| Investment income from funds withheld | 71,915,210 | 29,470,767 |
| Realized gains (losses) from funds withheld | (5,382,806) | 4,816,095 |
| Unrealized gains (losses) on derivatives | (82,352,871) | 47,841,003 |
| Amortization of deferred commission | (871,281) | (6,637,036) |
| Amortization of deferred profit liability | 1,974,977 | - |
| Investment management expenses | (7,343,891) | (2,472,011) |
| Net results from funds withheld | (22,060,662) | 73,018,818 |
| Net investment income | 4,273,669 | 1,346,478 |
| Realized gains on investments | 354,583 | 307,578 |
| Unrealized gains (losses) on investments | (5,117,365) | 944,045 |
| Total revenues | (22,549,775) | 75,616,919 |
| Benefits and Expenses | | |
| Claims and other insurance expenses | 39,217,387 | - |
| Interest credited to policyholder account balances and Deposit liability expenses | 34,914,228 | 20,715,273 |
| Operating expenses | 2,082,588 | 1,800,002 |
| Net income / (loss) | (98,763,978) | 53,101,644 |

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

Kuvare Life Re Ltd.

Statements of Changes in Shareholder's Equity For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

| | Share capital \$ | Additional paid-in- capital \$ | Retained earnings/ (accumulated deficit) \$ | Total \$ |
|-----------------------------------|---------------------|---|---|--------------|
| Balance, December 31, 2016 | 250,000 | 60,181,456 | (38,283,436) | 22,148,020 |
| Net income | - | - | 53,101,644 | 53,101,644 |
| Balance, December 31, 2017 | 250,000 | 60,181,456 | 14,818,208 | 75,249,664 |
| Net loss | - | - | (98,763,978) | (98,763,978) |
| Capital contributions (note 7) | - | 41,937,972 | - | 41,937,972 |
| Balance, December 31, 2018 | 250,000 | 102,119,428 | (83,945,770) | 18,423,658 |

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

Kuvare Life Re Ltd.

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

| | December 31, 2018 | December 31, 2017 |
|---|-------------------------|-----------------------|
| | \$ | \$ |
| Cash flows from operating activities | | |
| Net income / (loss) | (98,763,978) | 53,101,644 |
| Adjustments to reconcile net income / (loss) to net cash flows generated by operating activities: | | |
| Realized and unrealized gains on investments | 4,762,782 | (1,251,623) |
| Changes in assets and liabilities: | | |
| Funds withheld | (1,505,694,813) | 38,278,482 |
| Accrued investment income | (828,870) | (121,970) |
| Prepaid expenses | 5,969 | (15,275) |
| Accounts receivable | 3,042,660 | (2,953,228) |
| Future policy benefit reserves | 1,503,404,768 | - |
| Deposit liability | (43,081,897) | (31,641,446) |
| Unrealized (gains) losses on embedded derivatives | 82,352,871 | (47,841,003) |
| Deferred ceding commission | 9,041,429 | - |
| Deferred profit liabilities | 65,631,300 | - |
| Accounts payable and accrued expenses | 4,206,418 | 105,199 |
| Net cash generated by operating activities | <u>24,078,639</u> | <u>7,660,780</u> |
| Cash flows from investing activities | | |
| Change in restricted cash | (4,331,172) | 260,448 |
| Purchase of securities | (84,816,009) | (16,070,808) |
| Sale of securities | 28,533,700 | 5,778,638 |
| Net cash used in investing activities | <u>(60,613,481)</u> | <u>(10,031,722)</u> |
| Cash flows from financing activities | | |
| Additional paid in capital | 41,937,972 | - |
| Net cash provided by financing activities | <u>41,937,972</u> | <u>-</u> |
| Change in cash and cash equivalents | 5,403,130 | (2,370,942) |
| Cash and cash equivalents - beginning of period | <u>196,164</u> | <u>2,567,106</u> |
| Cash and cash equivalents - end of period | <u><u>5,599,294</u></u> | <u><u>196,164</u></u> |

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

Kuvare Life Re Ltd.

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

1. *Organization and corporate structure*

Kuvare Life Re Ltd. ("the Company") was incorporated as a Bermuda exempted company with limited liability on May 27, 2016 and registered as a Class E insurer under The Insurance Act 1978 of Bermuda, effective October 3, 2016.

The Company is solely owned by Kuvare UK Holdings Limited, a holding company incorporated under the laws of England and Wales. Kuvare Holdings LP, ("Kuvare LP") a Cayman Islands exempted limited partnership is the direct shareholder of Kuvare UK Holdings Limited, which is ultimately held by management and long-term investors who have committed capital to Kuvare LP.

Effective September 30, 2016, the Company entered into a Funds Withheld Retrocession Agreement with a Cedant ("the Cedant") to reinsure a 75% quota share of a block of certain fixed deferred annuity contracts. Liabilities associated with this agreement are reflected as deposit liabilities.

Effective May 1, 2018, the Company entered into a Modified Coinsurance Retrocession ("modco") agreement with the Cedant to reinsure 50% of the fixed component of certain variable annuity contracts. Liabilities associated with this agreement are reflected as interest-sensitive life and investment-type contract liabilities.

Effective June 1, 2018, the Company entered into a Funds Withheld Retrocession Agreement with a Cedant ("the Second Cedant") to reinsure a 75% quota share of a block of certain fixed annuity structured settlement contracts.

2. *Summary of significant accounting policies*

a) **Basis of preparation**

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

b) **Investments**

The Company's investment portfolio comprises fixed maturity securities and other investments in the form of limited partnerships or similar legal structures. These are classified as trading and are recorded at fair value through profit and loss. Changes in the fair value of the Company's investments are included in net realized and unrealized gains on investments within the statement of operations.

The Company records investments on a trade date basis, with any unsettled trades at year end recorded in accounts receivable or accounts payable and accruals on the balance sheet.

The fair value of certain of the Company's other investments, which principally include private credit and equity investments, is generally established on the basis of the net valuation criteria established by the managers of such investments. The net valuation criteria established by the

Kuvare Life Re Ltd.

Notes to Financial Statements

For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

managers of such investments is established in accordance with the governing documents of such investments. Certain of the Company's fund managers, fund administrators, or both, are unable to provide final fund valuations as of the Company's current reporting date. The typical reporting lag experienced by the Company to receive a final net asset value report is up to three months.

In circumstances where there is a reporting lag between the current period end reporting date and the reporting date of the latest fund valuation, the Company estimates the fair value of these funds by starting with the prior month or quarter-end fund valuations, adjusting these valuations for actual capital calls, redemptions or distributions, as well as the impact of changes in foreign currency exchange rates, and then estimating the return for the current period. In circumstances in which the Company estimates the return for the current period, all information available to the Company is utilized.

c) Funds withheld

Funds withheld represents a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which we act as reinsurer or a modified coinsurer. Although the assets in funds withheld and modco trusts are legally owned by the ceding company, the assets are separated from the general accounts of the cedants and all economic rights and obligations on the assets accrue to the Company. The underlying agreements contain embedded derivatives as discussed in derivatives.

d) Derivative asset and liability

Authoritative guidance for derivatives and hedging (ASC Topic 815) states that an embedded derivative shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risk of the host contract.

The coinsurance funds withheld and modified coinsurance agreements with the Cedants results in an embedded derivative as the assets backing the liabilities are retained by the Cedants but their underlying value is determined by factors separate from the host contract, namely interest rate and credit spread movement. The embedded derivative was initially valued at zero and subsequently valued based on the change in fair value of the underlying funds withheld and modco assets.

e) Deposit liability

The Company has determined that one of its reinsurance agreements does not meet all criteria to be accounted for as reinsurance and therefore the Company has accounted for the contract in accordance with FASB ASC Topic 720 using the deposit method of accounting with the funds withheld balance representing an asset and a separate deposit liability that represents reserves as determined under the reinsurance agreement. At inception, the funds withheld, or deposit liability is measured based on consideration paid or received, less any explicitly identified premiums or fees to be retained by the insurer or reinsurer. Any commission paid is recorded as a contra-liability offsetting the deposit liability and amortized to expense over the life of the business. The amount of the funds withheld or liability and any balances receivable from or payable to the Cedant will be adjusted at subsequent reporting dates by calculating the effective yield on the deposit to reflect actual payments to date and expected future payments with a corresponding credit or charge to interest income or expense.

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For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

f) Future policy benefit reserves

Liabilities for future benefits on interest-sensitive life and investment-type contract liabilities are carried at the accumulated contract holder values without reduction for potential surrender or withdrawal charges. These are equal to the balance that accrue to the benefit of the policyholders as of the financial statement date (commonly referred to as the account value), including, policyholders' accumulated net deposits plus interest credited and investment performance less policyholder withdrawals, fees and policy charges.

Liabilities for future benefits on life and structured settlement contracts are established using accepted actuarial valuation methods based on assumptions related to future claim costs, investment yields, mortality, morbidity, withdrawals and maintenance expenses, determined when the policies were assumed. An additional provision is made to allow for potential adverse deviation for some assumptions. Once established, assumptions on these contracts are locked in at inception and not modified unless a premium deficiency exists. The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish future policy benefit reserves. If the net GAAP liability (gross reserves less DAC, if any) is less than the present value of expected future gross premiums, then a premium deficiency reserve is recognized until the net GAAP liability is equal to the present value of expected future gross premiums. The future pattern of benefit reserve changes is modified to reflect the updated assumptions related to future claim costs, investment yields, mortality, morbidity, withdrawals and maintenance expenses, determined without an additional provision for potential adverse deviations.

Due to the many assumptions and estimates used in establishing reserves and the long-term nature of the reinsurance contracts, the reserving process, while based on standard actuarial practices, is inherently uncertain.

g) Deferred profit liabilities

At inception of block reinsurance transactions, the excess of the assets received over the sum of the reserves reinsured and ceding commission, is deferred and recognized as a deferred profit liability (DPL). The DPL for structured settlement contracts is amortized over the life of the policies in proportion to the expected annuity payments to be made throughout the benefit period. The DPL for interest-sensitive life and investment-type contracts is amortized over the life of the policies in proportion to the present value of the estimated gross profit amounts expected to be realized. Estimates of future gross profits are based on assumptions using accepted actuarial methods. Amortization is recorded in income within the statement of operations.

h) Recognition of revenues and related expenses

The amounts collected on interest-sensitive life and investment-type reinsurance contracts are considered deposits and are recognized as part of the future policy benefit reserves. Premiums related to life and structured settlement reinsurance contracts are recognized as revenue when due.

Interest-sensitive life and investment-type benefits include interest credited to policyholder account values, policy administration and benefit claims incurred in the period in excess of related policyholders' account balances.

Kuvare Life Re Ltd.

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(expressed in U.S. dollars)

i) Fair value measurements

Authoritative guidance for *Fair Value Measurements and Disclosures* defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. In compliance with these principles, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument. In accordance with the authoritative guidance for Fair Value Measurements and Disclosures, assets and liabilities recorded at fair value on the balance sheet are categorized as Level 1, 2 and 3.

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. The Company defines an active market as a market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Quoted prices in markets that are not active or valuation techniques that require inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:
 - Quoted prices for similar assets or liabilities (other than quoted prices in Level 1) in active markets;
 - Quoted prices for identical or similar assets or liabilities in non-active markets;
 - Inputs other than quoted market prices that are observable; and
 - Inputs that are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the assets or liabilities.
- Level 3 - Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These valuations, whether derived internally or obtained from a third party, use critical assumptions that are not widely available to estimate market participant expectations in valuing the asset or liability. When available, the estimated fair value of securities is based on quoted prices in active markets that are readily and regularly obtainable. When quoted prices in active markets are not available, the determination of estimated fair value may be based on market standard valuation methodologies (pricing models), including discounted cash flow methodologies, matrix pricing, or other similar techniques, as well as significant management judgement or estimation.

j) Cash and cash equivalents

Cash and cash equivalents include deposits, money-market funds and short-term highly liquid investments (maturity of less than ninety days from the date of acquisition) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Kuvare Life Re Ltd.

Notes to Financial Statements

For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

k) Restricted cash

Restricted cash consists of cash held as part of pledged assets, as additional collateral to further secure the obligations of the Company under the Funds Withheld and Modified Coinsurance Retrocession Agreements with the Cedants, pursuant to Trust Agreements between the Company and the Cedants.

Restricted cash is reported as a separate line item on the balance sheet. Changes in the restricted cash balance are reported in investing activities within the statement of cash flows.

l) Income taxes

At the present time, no taxes are levied in Bermuda on the Company's receipts, dividends, capital gains, gifts or net profit. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 31, 2035.

3. Fixed maturity securities and other investments

As of December 31, 2018, the Company's fixed maturity securities holdings were approximately \$68.5 million (2017 - \$33.1 million). The following table sets forth certain information regarding the investment ratings of the Company's fixed maturity securities portfolio as of December 31, 2018. Investment ratings are obtained from Moody's, Fitch, Standard & Poor's or other nationally recognized statistical rating organizations approved by the NAIC for each investment security.

| Rating | December 31, 2018 | | December 31, 2017 | |
|-----------|-------------------|------------------------|-------------------|------------------------|
| | Fair value \$ | Percentage of total | Fair value \$ | Percentage of total |
| AA | 1,149,860 | 1.68% | 1,178,590 | 3.56% |
| A | 7,099,126 | 10.36% | 8,832,843 | 26.65% |
| BBB | 25,623,833 | 37.41% | 8,310,335 | 25.07% |
| BB | 34,524,230 | 50.40% | 10,848,751 | 32.73% |
| B | 103,250 | 0.15% | 599,820 | 1.81% |
| Not Rated | - | - | 3,373,308 | 10.18% |
| Total | 68,500,299 | 100.00% | 33,143,647 | 100.00% |

Contractual maturities summary

| | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Fixed maturity securities | | |
| Due less than one year | - | - |
| Due after one year through to five years | - | 102,250 |
| Due after five years through to ten years | 5,055,394 | 5,365,324 |
| Due after ten years | 4,789,993 | 6,486,740 |
| Asset-backed and mortgage-backed securities (1) | 58,654,912 | 21,189,333 |
| Total | 68,500,299 | 33,143,647 |

Kuvare Life Re Ltd.

Notes to Financial Statements

For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

- (1) Asset-backed and mortgage backed securities have a legal stated maturity that does not correspond to the underlying cash flows and are shown as a separate category as a result.

The Company holds other investments representing limited partnerships investments. The Company had unfunded commitments totalling \$6,387,218 as at December 31, 2018. Investments in limited partnerships are generally non-redeemable or subject to lock-up periods on repurchase.

The Company's investments, primarily consisting of private credit and equity strategies, will generally liquidate in combination with the maturity/sale of the underlying investments, or upon redemption following expiration of the Company's lock-up period.

4. Funds withheld, deposit liabilities, future policy benefits reserves and embedded derivatives

The following table summarizes the Company's funds withheld, deposit liabilities, future policy benefit reserves and embedded derivatives by accounting classification.

| | December 31, 2018 | | | |
|--------------------------------|-------------------|--------------------|--------------------------------|---|
| | Total | Deposit Accounting | Life and structured settlement | Interest sensitive life and investment type (Modco) |
| | \$ | | | |
| Assets: | | | | |
| Funds withheld | 2,089,271,983 | 539,396,932 | 935,958,700 | 613,916,351 |
| Liabilities: | | | | |
| Future policy benefit reserves | 1,503,404,768 | - | 920,344,176 | 583,060,592 |
| Deposit liability | 514,843,156 | 514,843,156 | - | - |
| Derivative liabilities | 69,008,745 | 38,218,931 | 13,290,065 | 17,499,749 |

| | December 31, 2017 | | | |
|-------------------|-------------------|--------------------|--------------------------------|---|
| | Total | Deposit Accounting | Life and structured settlement | Interest sensitive life and investment type (Modco) |
| | \$ | | | |
| Assets: | | | | |
| Funds withheld | 583,577,170 | 583,577,170 | - | - |
| Derivative assets | 13,344,126 | 13,344,126 | - | - |
| Liabilities: | | | | |
| Deposit liability | 557,925,053 | 557,925,053 | - | - |

Kuvare Life Re Ltd.

Notes to Financial Statements

For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

5. Fair value measurements

The fair values of financial instruments have been determined by using available market information and the valuation techniques described below. Considerable judgment is often required in interpreting market data to develop estimates of fair value. The use of different assumptions or valuation techniques may have a material effect on the estimated fair value amounts. The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2018 and December 31, 2017.

| | December 31, 2018 | | December 31, 2017 | |
|---------------------------|-------------------|----------------------|-------------------|----------------------|
| | Carrying value | Estimated fair value | Carrying value | Estimated fair value |
| | \$ | \$ | \$ | \$ |
| Assets: | | | | |
| Fixed maturity securities | 68,500,299 | 68,500,299 | 33,143,647 | 33,143,647 |
| Derivative assets | - | - | 13,344,126 | 13,344,126 |
| | <u>68,500,299</u> | <u>68,500,299</u> | <u>46,487,773</u> | <u>46,487,773</u> |
| Liabilities: | | | | |
| Derivative liabilities | <u>69,008,745</u> | <u>69,008,745</u> | <u>-</u> | <u>-</u> |

The following tables present the Company's hierarchy for its financial instruments measured at fair value on a recurring basis as of December 31, 2018.

| December 31, 2018 | Total | Fair value measurements using: | | |
|--|-------------------|--------------------------------|-------------------|----------|
| | | Level 1 | Level 2 | Level 3 |
| | \$ | \$ | \$ | \$ |
| Fixed maturity securities, fair value: | | | | |
| Corporate bonds | 7,863,284 | - | 7,863,284 | - |
| Municipals | 1,982,103 | - | 1,982,103 | - |
| Asset-backed securities | 56,552,249 | - | 56,552,249 | - |
| Mortgage backed securities | 2,102,663 | - | 2,102,663 | - |
| Total assets | <u>68,500,299</u> | <u>-</u> | <u>68,500,299</u> | <u>-</u> |
| Derivative liabilities | <u>69,008,745</u> | <u>-</u> | <u>69,008,745</u> | <u>-</u> |

Kuvare Life Re Ltd.

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For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

| December 31, 2017 | Total \$ | Fair value measurements using: | | |
|--|-------------|--------------------------------|---------------|---------------|
| | | Level 1 \$ | Level 2 \$ | Level 3 \$ |
| Fixed maturity securities, fair value: | | | | |
| Corporate bonds | 10,809,034 | - | 10,809,034 | - |
| Municipals | 1,145,280 | - | 1,145,280 | - |
| Asset-backed securities | 19,943,544 | - | 19,943,544 | - |
| Mortgage backed securities | 1,245,789 | - | 1,245,789 | - |
| Embedded derivative | 13,344,126 | - | 13,344,126 | - |
| Total assets | 46,487,773 | - | 46,487,773 | - |

Valuations for the Company's fixed maturity securities and derivative assets and liabilities are generally based on third party pricing services for identical or comparable assets or through the use of valuation methodologies using observable market inputs and are classified as Level 2. Based on the typical volumes and the lack of quoted market prices for fixed maturity securities, third party pricing services normally derive the security prices through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available observable market information. Typical inputs include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, credit default assumptions, and/or estimated cash flows and prepayment speed assumptions. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted market rate.

Transfer between levels

There were no transfers between levels for the year ended December 31, 2018 and December 31, 2017.

6. Deferred profit liabilities

The following summarizes a rollforward of deferred profit liabilities.

| | Year Ended December 31, 2018 \$ | Year Ended December 31, 2017 \$ |
|----------------------------------|---------------------------------------|---------------------------------------|
| Balance at the beginning of year | - | - |
| Additions | 67,606,277 | - |
| Amortization | (1,974,977) | - |
| Balance at the end of year | 65,631,300 | - |

Kuvare Life Re Ltd.

Notes to Financial Statements

For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

7. *Share capital and additional paid-in capital*

Authorized and Issued share capital

The authorized and issued share capital of the Company is \$250,000 divided into 250,000 ordinary shares, par value \$1 each.

Additional paid-in capital

During the year ended December 31, 2018, the Company received \$41,937,972 (2017: nil) by way of additional capital contributions from its shareholder.

8. *Statutory requirements*

The Company operates in Bermuda and is subject to Bermuda's Insurance Account Rules, amendments thereto and related Regulations (the "Act"). Under the Act, the Company is prohibited from declaring or paying in any fiscal year dividends of more than 25% of its prior year's statutory capital and surplus without prior approval from the Bermuda Monetary Authority (BMA). Similarly approval from the BMA is required before any reduction of statutory capital by more than 15% compared to the previous year statutory capital. The primary difference between financial statements prepared for insurance regulatory authorities and statements prepared in accordance with US GAAP is that financial statements prepared for the insurance regulatory authorities apply prudential filters to the US GAAP financial statements in order to derive the Statutory Financial Statements. Prudential filters refer to adjustments to eliminate non-admitted assets including goodwill and other similar intangible assets, not considered admissible for solvency purposes; and to include certain off balance sheet assets and liabilities such as guarantees and other instruments that do not relate to insurance contracts.

The Company is licensed as a Class E Long term insurer under the Act and is required to maintain a minimum statutory solvency margin equal to the greater of a minimum solvency margin (MSM) and a percentage of the Enhanced Capital Requirement (ECR). The MSM is equal to the greater of (i) \$8 million (ii) 2% of the first \$500 million of assets plus 1.5% of assets above \$500 million or (iii) 25% of ECR. The ECR is calculated based on a standard risk-based capital model developed by the Bermuda Monetary Authority (BMA). As at December 31, 2018, the company is required to maintain an estimated minimum statutory capital and surplus (MSM) of \$35,288,145. The actual statutory capital and surplus, as determined using statutory accounting principles, is \$18,414,352 as at December 31, 2018. This deficiency was largely due to the accounting mismatch resulting from embedded derivatives, as rising rates and credit spreads resulted in negative mark-to-market on the assets under US GAAP, whereas liabilities were not similarly impacted. Subsequent to year end, asset valuations improved and have brought the Company back into compliance with the MSM requirement. Further, the Company received an additional capital contribution of \$10 million on April 1, 2019.

The Bermuda Solvency Capital Requirement (BSCR) employs a standard mathematical model that can relate more accurately the risks taken on by (re)insurers to the capital that is dedicated to their business. Insurers and reinsurers may adopt the BSCR model or, where an insurer or reinsurer believes that its own internal model better reflects the inherent risk of its business, an in-house model approved by the BMA. The Company has adopted the standard BSCR model. As at December 31, 2018, the Company's enhanced capital requirement (ECR) of \$58,515,935 and target capital level of 120% of ECR have both been met.

Kuvare Life Re Ltd.

Notes to Financial Statements

For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

9. *Related parties*

As of December 31, 2018 included in accounts payable and accruals is an amount of \$2,364,169 (2017: \$959,795) relating to accrued cost sharing fees payable to Kuvare US Holdings, Inc, a Delaware corporation, for certain services provided to the Company at agreed costs and fees pursuant to a Master Services Agreement by and among Kuvare US Holdings, Inc., the Company, Kuvare Insurance Services Ltd. and other parties. Amounts expensed in the period amounted to \$7,462,839 (2017: \$3,624,748).

10. *Concentration of credit risk*

The Company is a party to financial instruments with a concentration of credit risk in the normal course of business. The creditworthiness of any counterparty is evaluated by the Company, taking into account credit ratings assigned by rating agencies. The credit approval process involves an assessment of factors including, among others, the counterparty and country and industry credit exposure limits. Collateral may be required, at the discretion of the Company, on certain transactions based on the creditworthiness of the counterparty and the nature of the liabilities. The areas where significant concentrations of credit risk may exist include fixed maturity securities, funds withheld and reinsurance balances receivable (collectively, "reinsurance assets"). For reinsurance assets, the risk of loss is mitigated by the Company's ability to offset amounts owed to the ceding company with the amounts owed to the Company by the ceding company. Mitigating factors include using financially sound custodians, investment grade collateral with further investment guidelines governing the quality of the portfolio, ceding companies with high credit rating, and ability to offset amounts owed to ceding companies with amounts due from them.

Fixed maturity securities

The Company's investments are managed following prudent standards of diversification. The Company attempts to limit its credit exposure by purchasing a diversified pool of high quality fixed maturity securities to maintain an investment grade average portfolio that can be pledged as collateral or support retained earnings. As of December 31, 2018 and December 31, 2017 the credit ratings of the securities purchased were detailed in Note 3.

Other investments

Certain of the Company's limited partnership investments are invested in alternative credit strategies. The Company manages its credit exposure by investing with high quality managers with proven track records. In certain instances, these alternative credit strategies have been rated investment-grade by NRSROs.

Funds withheld assets

The assets are held and managed by the Cedants, a well-established reinsurance group with operations in Bermuda and the United States with an A- rating. In addition, the risk of loss is mitigated by the Company's ability to offset amounts owed to the Cedants with the amounts owed to the Company by the Cedants.

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Notes to Financial Statements

For the years ended December 31, 2018 and 2017

(expressed in U.S. dollars)

11. Subsequent events

The Company has evaluated the effects of events subsequent to December 31, 2018, for recognition and disclosure, through to April 29, 2019, which is the date the financial statements were available to be issued. There were no material events that occurred subsequent to December 31, 2018.