FINANCIAL STATEMENTS

Prosperity Life Assurance Limited
For the year ended December 31, 2021 and period from March 5, 2020
(Date of Incorporation) to December 31, 2020 and
Independent Auditors' Report

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Financial Statements
For the year ended December 31, 2021 and period from March 5, 2020
(Date of Incorporation) to December 31, 2020

Contents

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of Prosperity Life Assurance Limited

Opinion

We have audited the financial statements of Prosperity Life Assurance Limited (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of comprehensive income, shareholder's equity, and cash flows, for the years then ended, 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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Deloitte Ltd.

May 25, 2022

Prosperity Life Assurance Limited
Balance Sheets
($ in Thousands, except for par value)

	December 31, 2021	December 31, 2020
Assets		
Investments:		
Available-for-sale fixed maturity securities (amortized cost: 2021: $324,122; 2020: $92,024)	$ 320,796	$ 93,019
Equity securities, at fair value (cost: 2021: $20,054; 2020: $nil)	20,785	–
Funds held by ceding companies	4,311,528	2,243,679
Total investments	4,653,109	2,336,698
Cash and cash equivalents	12,180	107,302
Reinsurance recoverables	15,251	65,931
Deferred acquisition costs	13,206	16,155
Other assets	1,627	199
Total assets	$ 4,695,373	$ 2,526,285
Liabilities and Shareholder's Equity		
Liabilities:		
Future policy benefits	$ 921,882	$ 569,458
Policyholder funds	3,440,513	1,729,214
Unpaid Claims	34,282	3,960
Reinsurance payables	37,050	20,395
Accrued expenses and other liabilities	4,447	33,676
Total liabilities	4,438,174	2,356,703
Commitments and contingencies (Note 11)		
Shareholder's equity		
Common stock, $1 par value, 282,550,000 (2020: 158,550,000) shares authorized, issued and outstanding	282,550	158,550
Accumulated other comprehensive income (loss)	(3,326)	995
Accumulated earnings (deficit)	(22,025)	10,037
Total shareholder's equity	257,199	169,582
Total liabilities and shareholder's equity	$ 4,695,373	$ 2,526,285

See accompanying notes.

Prosperity Life Assurance Limited
Statements of Comprehensive Income (Loss)
($ in Thousands)

	Year ended December 31, 2021	Period from March 5, 2020 (Date of Incorporation) to December 31, 2020
Revenues		
Premiums	$ 419,398	$ 576,585
Net investment income	86,563	6,746
Net investment gains (losses)	(38,512)	15,921
Total revenues	467,449	599,252
Benefits and expenses		
Life and annuity benefits	394,820	542,014
Health benefits	1,178	33,519
Interest credited to policyholder funds	76,888	4,112
Acquisition costs	3,663	2,527
Other expenses	21,637	7,043
Total benefits and expenses	498,186	589,215
Net income (loss)	(30,737)	10,037
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities	(4,321)	995
Total other comprehensive income (loss)	(4,321)	995
Comprehensive income (loss)	$ (35,058)	$ 11,032

See accompanying notes.

Prosperity Life Assurance Limited
Statements of Shareholder's Equity
($ in Thousands)

	Common Stock	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total Shareholder's Equity
Balance on March 5, 2020	$ –	$ –	$ –	$ –
Net income	–	–	10,037	10,037
Other comprehensive income	–	995	–	995
Issuance of common stock	158,550	–	–	158,550
Balance as of December 31, 2020	$ 158,550	$ 995	$ 10,037	$ 169,582
Net (loss)	–	–	(30,737)	(30,737)
Other comprehensive (loss)	–	(4,321)	–	(4,321)
Issuance of common stock	124,000	–	–	124,000
Dividends paid	–	–	(1,325)	(1,325)
Balance as of December 31, 2021	$ 282,550	$ (3,326)	$ (22,025)	$ 257,199

See accompanying notes.

Prosperity Life Assurance Limited
Statements of Cash Flows
($ in Thousands)

	Year ended December 31, 2021	Period from March 5, 2020 (Date of Incorporation) to December 31, 2020
Cash Flows from Operating Activities		
Net income (loss)	$ (30,737)	$ 10,037
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net investment income and investment related gains	(47,606)	(22,484)
Amortization and depreciation	(28,766)	(1,696)
Net receipt at inception of reinsurance agreement	–	30,000
Net policy and expense related payments from funds held by ceding companies	69,642	3,974
Cash settlement to Company on funds held reinsurance agreement	22,647	33,509
Insurance-related and policy-related liabilities	29,071	2,862
Net reinsurance settlements payable	48,000	(48,000)
Policy acquisition costs, deferred	2,607	(902)
Other assets and liabilities	(30,604)	6,728
Net cash provided by operating activities	34,254	14,028
Cash Flows from Investing Activities		
Sales, maturities and repayments of available-for-sale securities	35,062	998
Purchases of:		
Available-for-sale securities	(266,589)	(66,274)
Equity securities	(20,524)	–
Net cash used in investing activities	(252,051)	(65,276)
Cash Flows from Financing Activities		
Issuance of common stock	124,000	158,550
Payment of dividends	(1,325)	–
Net cash provided by financing activities	122,675	158,550
Net increase (decrease) in cash and cash equivalents	(95,122)	107,302
Cash and cash equivalents, as of beginning-of-period	107,302	–
Cash and cash equivalents, as of end-of-period	$ 12,180	$ 107,302
Non-Cash Operating Activity		
Deposits on investment-type policies on funds withheld basis	27,522	3,087
Withdrawals on investment-type policies on funds withheld basis	344,585	4,238
Cash received at inception of reinsurance agreement into funds withheld receivable	34,000	–

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization and Operations

Prosperity Life Assurance Limited (the 'Company') is a Bermuda exempted company incorporated on March 5, 2020 as a wholly owned subsidiary of Irizaba Holdco UK Limited ('Irizaba Holdco'). The Company is an indirect subsidiary of the ultimate parent, Prosperity Group Holdings L.P. ('Prosperity'), a Bermuda exempted limited partnership.

The Company provides life, annuity and accident and health reinsurance solutions. On May 14, 2020, the Company was registered with the Bermuda Monetary Authority ('BMA') as a Class E long-term insurer under the Insurance Act 1978 and related regulations.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ('GAAP').

Reclassification

Certain comparative figures have been reclassified to conform to current year presentation.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those based on these estimates and assumptions. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets, other-than-temporary impairment determinations, deferred acquisition costs ('DAC'), future policy benefits, the potential effects of resolving litigated matters and derivatives valuation, including embedded derivatives.

Risks and Uncertainties

The Company operates in a business environment that is subject to various risks and uncertainties. Such risks and uncertainties include, but are not limited to, interest rate risk, market risk, credit risk, mortality, longevity and morbidity risk legal and regulatory changes, and investment risk.

1. Organization and Significant Accounting Policies (continued)

Interest rate risk is the potential for interest rates to change, which can cause fluctuations in the value of investments, the liabilities for future policy benefits, and the carrying amount of DAC. Market risk is the potential for market values to change, which can cause fluctuations in certain policyholder funds and contract charges. Credit risk is the risk that issuers of investments owned by the Company may default or that other parties may not be able to pay amounts due to the Company. The Company is also under the jurisdiction of the Bermuda Monetary Authority. The potential exists for changes in regulatory requirements, which can result in additional, unanticipated impacts to the Company.

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of certain investment securities, it is at least reasonably possible that changes in value, even as soon as immediately subsequent to the issuance of the financial statements, could materially affect then-current valuation as compared to the amounts as reported in the financial statements.

The novel coronavirus ('COVID-19') pandemic continues to spread in the United States and throughout the world, and has created and may continue to create extreme stress and disruption in the global economy and financial markets, as well as elevated mortality and morbidity experience for the global population. The ultimate extent of the impact will depend on numerous factors, all of which are highly uncertain and cannot be predicted. These factors include the length and severity of the outbreak, including the impact of new variants of the virus and the efficacy of vaccines and therapeutic treatments in combating the virus, the effectiveness of responses to the pandemic taken by governments and private sector businesses, and the impacts on our customers, employees and vendors. The Company continues to monitor the economic environment and other potential impacts relating to the COVID-19 pandemic as it relates to the risks described below on its insurance liabilities, investment portfolio and business operations.

<u>Summary of Significant Accounting Policies</u>

Fair Value Measurement

Certain assets and liabilities are reported or disclosed at fair value in the financial statements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

GAAP guidance includes a fair value hierarchy that categorizes the inputs to the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (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.

See Note 4 for additional information with respect to fair value measurements.

1. Organization and Significant Accounting Policies (continued)

Investments

Fixed Maturity

Investments in fixed maturity securities classified as available-for-sale ('AFS') are reported at fair value and unrealized gains or losses on these securities are included within accumulated other comprehensive income ('AOCI').

Dividends and interest income, recorded in net investment income, are recognized when earned. Amortization of premiums and accretion of discounts on investments in debt securities are recorded in net investment income over the contractual terms of the investments in a manner that produces a constant effective yield. Realized gains and losses on sales of investments are recognized using the specific identification method. Purchase and sales of investments are recorded on the trade-date basis.

Included within fixed maturities are loan-backed securities, including asset-backed securities ('ABS'), residential mortgage-backed securities ('RMBS'), commercial mortgage-backed securities ('CMBS') and other structured securities. Income on loan-backed and other structured securities is recognized using a constant effective yield based on anticipated cash flows and the estimated economic life of the securities. Prepayment assumptions are obtained from external sources or internal estimates. Significant changes to the cash flow assumptions from the original purchase assumptions are accounted for utilizing the prospective method.

Equity Securities

Equity securities are carried at fair value with changes in fair value recognized in net investment gains (losses) while dividend income is reported in net investment income.

Funds Held by Ceding Companies

Funds held by ceding companies represents receivables for amounts contractually withheld by ceding companies in accordance with funds withheld reinsurance agreements in which the Company acts as the reinsurer. Generally, assets equal to statutory reserves, net of reinsurance, are withheld and legally owned by the ceding company and any excess or shortfall is settled periodically. The underlying agreements, which represents host contracts equivalent to debt receivables with a rate of interest equal to the book yields, contain an embedded derivative as discussed below. Investment income on funds held by ceding companies is equal to the interest income earned on these segregated assets.

1. Organization and Significant Accounting Policies (continued)

The Company accounts for the embedded derivatives in modified coinsurance and funds withheld contracts as total return swaps. Accordingly, the value of the derivative is equal to the unrealized gain or loss on the assets underlying the funds withheld portfolio associated with each agreement. The Company's funds held by ceding company are recorded at fair value with the changes in the fair value of the embedded derivative reflected in net investment gain in the Statement of Comprehensive Income.

Refer to Note 5 for further information on the Company's derivative instruments.

Other-Than-Temporary Impairment ('OTTI')

The Company periodically evaluates its AFS investments to determine whether there has been an other-than-temporary decline in fair value below the amortized cost basis. Inherent in the Company's evaluation of a particular security are assumptions and estimates about the operations of the issuer and its future earnings potential. An impaired security is considered other-than-temporary if: (1) the Company has the intent to sell the security as of the balance sheet date; (2) it is more likely-than-not that a security will be required to be sold; or (3) the entire amortized cost of a security is not expected to be recovered based on the net present value of the cash flows. Some of the factors considered in evaluating the cash flows for a security are: (1) the duration and extent to which the fair value has been less than cost for equity securities or amortized cost for fixed maturities; (2) the financial condition, near-term prospects, and long-term prospects of the issuer, including relevant industry conditions and trends; (3) with respect to structured securities, changes in forecasted cash flows after considering the quality of underlying collateral, expected prepayment speeds, current and forecasted loss severity, consideration of the payment terms of the underlying assets backing a particular security, and the payment priority within the tranche structure of the security; (4) the specific reasons that a security is in a significant unrealized loss position, including market conditions that could affect access to liquidity; (5) the payment structure of the security; (6) a downgrade in the rating for a security; and (7) dividends or interest have been reduced or eliminated.

If the Company intends to sell a debt security with a fair value that is below the amortized cost, or if it is more likely-than-not the Company will be required to sell a debt security before recovery of its amortized cost basis, an OTTI is recorded by reducing the amortized cost to current fair value, with a corresponding charge to net investment gain on the Statement of Comprehensive Income. If the Company does not intend to sell a debt security with a fair value that is below amortized cost, or it is not more likely-than-not the Company will be required to sell a debt security before recovery of its amortized cost basis but the present value of the cash flows expected to be collected is less than the amortized cost of the debt security (referred to as the credit loss), an OTTI has occurred and the amortized cost is reduced to the estimated recovery value with a corresponding charge to net investment gain on the Statement of Comprehensive Income, as this amount is deemed the credit portion of the OTTI. The remainder of the decline to fair value is recorded in AOCI as unrealized OTTI on AFS securities in the Statement of Comprehensive Income, as this amount is considered a noncredit (i.e., recoverable) impairment.

1. Organization and Significant Accounting Policies (continued)

When assessing the intent to sell a debt security or if it is more likely-than-not the Company will be required to sell a debt security before recovery of the cost basis, the Company evaluates facts and circumstances such as, but not limited to, decisions to reposition the security portfolio, sale of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing. In order to determine the amount of the credit loss for a debt security, the Company calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and expected future cash flows. The discount rate is the effective interest rate implicit in the underlying debt security. The effective interest rate is the original yield or the effective interest rate at the date of impairment if the debt security was previously impaired.

In periods after the recognition of an OTTI, the AFS security is accounted for as if it had been purchased on the measurement date of the OTTI. Therefore, for the fixed maturity AFS security, the original discount or reduced premium is reflected in net investment income over the contractual term of the investment in a manner that produces a constant effective yield.

With respect to an investment in an equity security, if the decline in fair value is determined to be other than temporary, a loss in the entire amount of the impairment is reflected in net investment gain in the Statement of Comprehensive Income. Upon recognizing an OTTI, the new cost basis of the security is the previous cost basis less the OTTI recognized in net investment gain.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less when purchased. These assets are reported at cost, which approximates fair value.

Deferred Acquisition Costs ('DAC')

DAC consists of costs related to initial ceding commissions paid and other costs related to the successful acquisition of reinsurance agreements. These costs have been deferred and recorded as an asset.

Deferred costs related to traditional life insurance contracts, all of which relate to long duration contracts, are amortized generally over the premium-paying period, in proportion to the ratio of individual period premium revenues to total anticipated premium revenues over the amortization period or over number of policies inforce, if the policies are out of premium-paying period. Such anticipated premium revenues are estimated using the same assumptions used for computing liabilities for future policy benefits. DAC related to interest sensitive insurance products, such as universal life and annuities, are recognized as expense over the term of the policies in proportion to projected runoff of policyholder account values.

The Company evaluates the recoverability of DAC on an annual basis, including at issuance. If it is determined that the deferred costs are not recoverable, a cumulative charge is recorded in the current period. No such adjustments were made during 2021 or 2020.

1. Organization and Significant Accounting Policies (continued)

Reinsurance

The Company assumes insurance and investment contracts under funds withheld agreements. Reinsurance accounting is applied to business assumed where the risk transfer criteria 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.

Assets and liabilities assumed under funds withheld reinsurance contracts are presented gross on the Balance Sheet. The fair value of the consideration received for business assumed which meets risk transfer requirements is included in the premiums line of the Statement of Comprehensive Income. Changes to assumed reserves and benefits paid are presented net in the life and annuity benefits line or health benefits line.

When the fair value of the consideration received for reinsurance transactions is greater than the liabilities reinsured, the resulting deferred gain is recognized as either deferred profit liability (‘DPL’) if related to traditional life insurance contracts or unearned revenue reserve (‘URR’) if related to interest sensitive contracts. The consideration received is calculated as the fair value of any assets received, exclusive of any ceding commission paid or payable. DPL and URR is included on the Balance Sheet within the applicable reserves balance to which it relates and are earned using the methodology consistent with DAC.

Accounting for reinsurance requires the use of assumptions, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. The Company attempts to minimize counterparty risk credit risk through the structuring of the terms of the reinsurance agreements, including the use of trusts and the monitoring of credit ratings of the counterparties for signs of declining credit quality.

Other Assets and Other Liabilities

Other assets are comprised primarily of amounts receivable from investments transactions and accrued investment income.

Other liabilities are comprised primarily of amounts payable for investment transactions, amounts due to affiliates and payroll and general expense accruals.

Commission and Expense Allowances

Commission and expense allowances are the costs reimbursed under the reinsurance agreements that are related to the production of new business and the maintenance of existing reinsured policies. Commission and expense allowances are accounted for on a basis consistent with that used in accounting for the underlying reinsured contracts and the terms of the reinsurance agreements.

($ in Thousands, except for par value)

1. Organization and Significant Accounting Policies (continued)

Future Policy Benefits and Policyholder Funds

The Company establishes and carries actuarially determined reserves that are calculated to meet its future obligations. Future policy benefits are comprised of traditional life, payout annuities with life contingencies and accident and health insurance contracts. Future policy benefits are established using accepted actuarial valuation methods which require the use of assumptions related to expenses, investment yield, mortality, morbidity, withdrawals and persistency based on historical experience projected at the time of policy issue or policy purchase date, as appropriate.

The range of discount rates used to compute the Company's reserves for future policy benefits are as follows:

	2021	2020
Traditional life insurance	2.50%	2.50%
Payout annuities with life contingencies	1.50% - 3.86%	3.86%
Accident and health	2.40%	2.40%

Policyholder funds include fixed deferred annuities and payout annuities without life contingencies. Liabilities associated with deferred annuities generally represent the account values before any applicable surrender charges. The Company records, as revenue, any amounts charged against the reserves for the cost of insurance, policy administration, and surrender penalties. Any interest credited to the reserves and any benefit payments that exceed the contract liability account balance are recorded as expenses. Liabilities for payout annuities without life contingencies are calculated as the present value of future liability cash flows discounted at contractual interest rates.

For liabilities which have excess benefits, the Company periodically revises the key assumptions used in the calculation of the liabilities, including investment yields and expected excess benefits. The effects of these changes in assumptions are recorded as unlocking in the period in which the change was made.

The liability unpaid claims which are based upon estimates of payments to be made for the life, health and annuity claims incurred whether reported or unreported.

On an annual basis, for life insurance contracts, the Company performs loss recognition testing ("LRT") to determine whether a premium deficiency exists. A premium deficiency exists if the current reported reserves plus the present value of expected future premiums are not sufficient to cover the present value of expected future benefits and expenses. As of December 31, 2021, and 2020, there was no premium deficiency identified as part of LRT.

Reinsurance Recoverables and Reinsurance Payables

Reinsurance recoverables include contractual balances due from ceding companies. Reinsurance payables include net settlements due to ceding companies.

1. Organization and Significant Accounting Policies (continued)

Premium Recognition

Assumed reinsurance premiums related to insurance contracts are recognized as revenue when due from the ceding companies. For investment contracts, not meeting risk transfer criteria, premiums collected are reported as deposits to policyholder funds.

Other Comprehensive Income

Comprehensive income includes both net income and other items of comprehensive income comprised of unrealized gains and losses on investment securities classified as AFS.

Commitments and Contingencies

Contingencies arising from regulatory judgments, noninsurance claims, assessments, guarantees, litigation, fines, penalties and other sources are recorded when deemed probable and reasonably estimable.

Adoption of New Accounting Standards

Premium Amortization on Purchased Callable Debt

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The ASU shortens the amortization period for certain callable debt securities held at a premium and requires the premium to be amortized to the earliest call date. ASU 2017-08 does not require an accounting change for securities held at a discount whose discount continues to be amortized to maturity. The Company adopted the guidance on its required effective date of January 1, 2020. The adoption of this guidance had no impact on the Company’s financial statements.

1. Organization and Significant Accounting Policies (continued)

Future Adoption of New Accounting Standards

Leases

In February 2016, the FASB issued new guidance on leasing transactions (ASU 2016-02, *Leases - Topic 842*) and subsequently, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements* and *ASU 2021-09, Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*. The new guidance requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. Leases would be classified as finance or operating leases and both types of leases will be recognized on the balance sheet. Lessor accounting will remain largely unchanged from current guidance except for certain targeted changes. The new guidance will also require new qualitative and quantitative disclosures. The provisions of the ASUs are effective for non-public entities on January 1, 2022 and early adoption was permitted. The Company plans to adopt Topic 842 and to apply the transition election of presenting a transition adjustment for reporting periods beginning January 1, 2022. The Company does not expect the adoption to have a material impact to the financial statements.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Credit Losses* (ASU 2016-13), which replaces the current incurred loss impairment methodology with a broader range of reasonable and supportable credit loss assumptions. The new guidance will require that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down of the investment balance. In each subsequent period, the entity would be allowed to record reversals of credit losses in the current period net income in order to align the income statement recognition of credit losses with the reporting period in which changes occur. The provisions of the ASUs are effective for non-public entities on January 1, 2023 and early adoption is permitted. The Company plans to adopt on January 1, 2023 is currently evaluating the impact of this guidance on its financial statements.

Long Duration Insurance Contracts

In August 2018, the FASB issued ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts* (ASU 2018-12), which amends the accounting model under U.S. GAAP for certain long-duration insurance contracts and requires insurers to provide additional disclosures in annual and interim reporting periods. The guidance requires insurance entities to update, on retrospective basis, the assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts at least annually with the changes recognized through net income. This includes use of an upper-medium grade (low-credit-risk) fixed income discount rate that is required to be updated quarterly with changes recorded through accumulated other comprehensive income. The updated guidance also changes the amortization method of deferred acquisition costs (DAC) and the measurement of market risk benefits.

($ in Thousands, except for par value)

1. Organization and Significant Accounting Policies (continued)

The guidance significantly impacts the accounting for the traditional and limited-pay contracts. The provisions of the ASUs are effective for non-public entities on January 1, 2025 and early adoption is permitted. The Company does not plan to early adopt this guidance and is currently evaluating the impact of this guidance with an expectation that the updated guidance will have a significant impact on its financial statements.

2. Investments

Fixed Maturity Available-for-Sale Securities

Fixed maturity securities by sector are as follows:

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized gain (loss) on securities previously recognized as OTTI[(1)]
Fixed maturity AFS securities:					
U.S. Corporate	$ 56,353	$ 99	$ (137)	$ 56,315	$ –
Foreign Corporate	10,122	–	(726)	9,396	–
State and municipal	4,801	–	(44)	4,757	–
CMBS	53,291	169	(1,499)	51,961	–
RMBS	78,372	546	(877)	78,041	–
Other bonds	121,183	229	(1,086)	120,326	–
Total fixed maturity AFS securities	$ 324,122	$ 1,043	$ (4,369)	$ 320,796	$ –

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized gain (loss) on securities previously recognized as OTTI[(1)]
Fixed maturity AFS securities:					
RMBS	$ 55,395	$ 903	$ 14	$ 56,284	$ –
Other bonds	36,629	106	–	36,735	–
Total fixed maturity AFS securities	$ 92,024	$ 1,009	$ 14	$ 93,019	$ –

(1) Represents the amount of OTTI losses recognized in AOCI. Since inception, there has not been any amounts included in income. Amount also includes unrealized gains and losses on impaired securities relating to changes in the value of such securities after the impairment measurement date (if any).

($ in Thousands, except for par value)

2. Investments (continued)

Gross unrealized losses (including noncredit impairments) and the fair value of the Company's AFS securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	Less Than 12 Months		12 Months or Greater		Total	
December 31, 2021	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Corporate	$ 43,016	$ 137	$ –	$ –	$ 43,016	$ 137
Foreign Corporate	9,396	726	–	–	9,396	726
State and municipal	4,757	44	–	–	4,757	44
CMBS	35,385	1,499	–	–	35,385	1,499
RMBS	27,978	236	6,325	641	34,303	877
Other bonds	93,661	1,086	–	–	93,661	1,086
Total temporarily impaired securities	$ 214,193	$ 3,728	$ 6,325	$ 641	$ 220,518	$ 4,369

	Less Than 12 Months		12 Months or Greater		Total	
December 31, 2020	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
RMBS	$ 7,952	$ 14	$ –	$ –	$ 7,952	$ 14

The Company believes the unrealized loss positions as of December 31, 2021 and 2020 do not represent OTTI as there is no intention to sell these fixed maturity AFS securities, it is not more likely-than-not that the Company will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis, the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities, or the Company has the ability and intention to hold the equity securities for a period of time sufficient for recovery. Further, as of December 31, 2021 and 2020, the Company had the ability to generate adequate amounts of cash from normal operations (e.g., reinsurance premiums and fees, investment income, and return of principal) to meet cash requirements without requiring the sale of any temporarily impaired securities.

The Company did not recognize any OTTI losses for the year ended December 31, 2021 and 2020.

($ in Thousands, except for par value)

2. Investments (continued)

The amortized cost and fair value of AFS fixed maturity securities by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2021		December 31, 2020	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due within one year	$ -	$ -	$ –	$ –
Over one year through five years	46,502	46,547	–	–
Over five years through ten years	-	-	–	–
Over ten years	24,774	23,921	–	–
Subtotal	**71,276**	**70,468**	–	–
CMBS	53,291	51,961	–	–
RMBS	78,372	78,041	55,395	56,284
Other structured securities	121,183	120,326	36,629	36,735
Total fixed maturity AFS securities	**$ 324,122**	**$ 320,796**	**$ 92,024**	**$ 93,019**

Net Investment Income

Major categories of net investment income are summarized as follows:

	Year ended December 31, 2021	**Period ended December 31, 2020**
Fixed maturity AFS securities	$ 7,750	$ 200
Equity securities	–	–
Funds held by ceding companies (Note 3)	84,552	6,316
Cash and cash equivalents	17	247
Other	767	4
Investment income	**93,086**	**6,767**
Investment expenses	(6,523)	(21)
Net investment income	**$ 86,563**	**$ 6,746**

Net investment gain

The detail of net investment gains (losses) by class of investment is summarized as follows:

	Year ended December 31, 2021	**Period ended December 31, 2020**
Fixed maturity AFS securities	$ (169)	$ –
Equity securities	261	–
Net gains (losses) on funds held by ceding companies	(38,604)	15,921
Total net investment gains (losses)	**$ (38,512)**	**$ 15,921**

($ in Thousands, except for par value)

2. Investments (continued)

Dispositions in the above table include sales, losses recognized in anticipation of dispositions, and other transactions, such as calls and prepayments. The Company may sell securities during the period in which fair value has declined below amortized cost. In certain situations new factors such as unanticipated changes in asset/liability management policies, changes in expected liability cash flows, market movements, market liquidity concerns, relative value opportunities, business plans, and the expectation that market value could deteriorate further, and changes in credit quality can subsequently change the Company's decision to hold a security.

Proceeds from Sales

Year Ended December 31, 2021	**Total Proceeds**	**Gross Realized Gains**	**Gross Realized Losses**
Fixed maturity AFS securities	$ 35,116	$ 270	$ (439)
Equity Securities	–	–	–
Total	**$ 35,116**	**$ 270**	**$ (439)**

Proceeds from sales of securities were $0 for the period ended December 31, 2020.

Net realized gains (losses) on involuntary prepayments of AFS bonds are summarized as follows:

	Year ended December 31, 2021	**Period ended December 31, 2020**
Net realized gains (losses) on involuntary prepayments		
Fixed maturity AFS securities	$ (79)	$ –
Total	**$ (79)**	**$ –**

Concentrations of Financial Risk

As of December 31, 2021, the Company's two most significant exposures to a single issuer, other than the U.S. government and its agencies, were investments in BR Advisory & Investments, LLC. with a fair value of $46.5 million or 14.0% and PLP 2021-2 Ltd. with a fair value of $24.0 million or 7.2%, of the combined cash, cash equivalents and investment portfolios, respectively. As of December 31, 2020, the Company's two most significant exposures to a single issuer, other than the U.S. government and its agencies, were investments in Anchor Credit Funding Ltd. with fair values of $21 million or 11.0% and Towd Point Mortgage Trust with a fair value of $18 million or 9.0% of the combined cash, cash equivalents and investment portfolios, respectively. These investments are included as fixed maturity securities in the tables above.

As of December 31, 2021, the Company's two most significant exposures to a single industry were in the diversified financial services industry with a fair value of $63.2 million, or 19.0% and the internet industry with a fair value of $9.4 million, or 2.8%, of the combined cash, cash equivalents and investment portfolios, respectively. These investments are included as fixed maturity securities in the tables above.

($ in Thousands, except for par value)

3. Funds Held by Ceding Companies

Funds held by ceding companies consist mainly of invested assets and cash and cash equivalents retained by the ceding company. The assets are held in trust or custodial accounts that are legally segregated from other assets of the cedants. The Company is exposed to the investment performance of the underlying assets, as if the assets were directly owned by the Company. The risk of loss to the Company due to the insolvency of a ceding company is mitigated by the Company's contractual right to offset amounts it owes the ceding company for claims or allowances with amounts owed to the Company from the ceding company. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance on the funds withheld assets in a fashion similar to its invested assets.

The assets supporting the funds held by ceding companies as at December 31 were as follows:

	2021	2020
Fixed maturity AFS securities		
U.S. government and agency	$ –	$ 4,440
Foreign government	–	1,203
U.S. corporate	1,446,209	1,895,523
Foreign corporate	450,498	25,814
State and municipal	95,721	26,321
CMBS	548,894	–
RMBS	148,683	61,022
Other bonds	904,676	99,264
Total fixed maturity AFS securities	**$ 3,594,681**	**$ 2,113,587**
Mortgage loans	434,037	–
Short-term investments	11,034	$ 31,022
Cash and cash equivalents	241,569	82,657
Equity securities	4,422	–
Other assets and liabilities	25,785	16,413
Total	**$ 4,311,528**	**$ 2,243,679**

4. Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating the fair value disclosures for financial instruments in the accompanying financial statements and notes thereto:

	December 31, 2021		December 31, 2020	
	Carrying Value	Total Estimated Fair Value	Carrying Value	Total Estimated Fair Value
Cash and cash equivalents	$ 12,180	$ 12,180	$ 107,302	$ 107,302
Fixed maturity AFS securities	320,796	320,796	93,019	93,019
Equity securities	20,785	20,785	–	–
Funds held by ceding companies	4,311,528	4,311,528	2,243,679	2,243,679
Interest sensitive liabilities[1]	3,192,381	3,192,381	1,600,924	1,600,924

[1] *Included within policyholder funds on the balance sheet*

4. Fair Value of Financial Instruments (continued)

Investment securities – The fair values of the Company's investments are disclosed in Note 2. Fair value for these instruments is based on the price published by a third-party pricing service, if available. If not available, the Company measures the fair value of investments based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the investment and is consistently applied to measure the investment's fair value. The Company's fair value measurement is 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: third-party pricing services, independent broker quotations, and pricing matrices. The Company uses observable and unobservable inputs in its valuation methodologies. For securities valued through third-party pricing services, the Company gains an understanding of the fair value inputs and pricing methodologies at the service provider in determining the appropriateness of the fair value measurements provided.

Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators, and industry and economic events are monitored. For certain investments, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only investments, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. In order to validate the pricing information and broker-dealer quotes, the Company employs, where possible, procedures that include comparisons with similar observable positions, comparisons with subsequent sales and discussions with brokers as well as observations of general market movements for those security classes. For those securities trading in less liquid or illiquid markets with limited or no pricing information, the Company relies on its third-party investment manager to provide valuations, which the Company subsequently reviews independently for reasonableness.

Generally, the Company does not adjust prices received from third parties; however, the Company does analyze the third-party pricing services' valuation methodologies and related inputs and performs additional evaluation to determine the appropriate level within the fair value hierarchy.

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

Cash and cash equivalents – The carrying amount of cash and cash equivalents approximates fair value.

Interest sensitive liabilities – Interest sensitive liabilities include deposit-type contracts and other liabilities which are considered investment-type contracts. The balances are included within policyholder funds on the Balance Sheet. The fair values of the account balance for such investment contracts are based on their approximate surrender values.

($ in Thousands, except for par value)

4. Fair Value of Financial Instruments (continued)

Other assets and liabilities considered financial instruments, such as accrued investment income are generally of a short-term nature, and as such, their carrying values are deemed to approximate fair value.

The fair values of the Company's liabilities for insurance contracts other than investment type contracts are not required to be disclosed. However, the fair values of liabilities for all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, such that the Company's exposure to changing interest rates is minimized through the matching of investment maturities with amounts due for insurance contracts.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1–Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- Level 2 –Inputs to the valuation methodology are other than quoted prices in active markets that are either directly or indirectly observable for the asset or liability; and
- Level 3 –Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity uses its own assumptions and estimates about the assumptions market participants would use in pricing the asset or liability, including assumptions regarding risk.

The following table summarizes the Company's assets measured at fair value on a recurring basis:

December 31, 2021	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Fixed maturity AFS securities:				
U.S. government and agency	$ –	$ –	$ –	$ –
U.S. corporate	–	56,315	–	56,315
Foreign corporate	–	9,396	–	9,396
State and municipal	–	4,757	–	4,757
CMBS	–	51,961	–	51,961
RMBS	–	78,041	–	78,041
Other bonds	–	120,236	–	120,236
Equity securities	–	20,785	–	20,785
Funds held by ceding companies	241,569	3,632,107	437,852	4,311,528
Cash and cash equivalents	12,180	–	–	12,180
Total assets measured at fair value	**$ 253,749**	**$ 3,973,688**	**$ 437,852**	**$ 4,665,289**

($ in Thousands, except for par value)

4. Fair Value of Financial Instruments (continued)

December 31, 2020	Level 1	Level 2	Level 3	Total Fair Value
Fixed maturity AFS securities:				
CMBS	$ –	$ –	$ –	$ –
RMBS	–	56,284	–	56,284
Other bonds	–	36,735	–	36,735
Funds held by ceding companies	82,657	2,161,022	–	2,243,679
Cash and cash equivalents	107,302	–	–	107,302
Total assets measured at fair value	**$ 189,959**	**$ 2,254,041**	**$ –**	**$ 2,444,000**

The Company has no assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2021 or 2020.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Year Ended December 31, 2021	Beginning fair value	Purchases & acquisitions through reinsurance agreements	Items included in income	Gains/ losses in AOCI	Redemptions	Transfers in or out of Level 3, net	Ending fair value
Funds held by ceding companies	–	468,995	(12,584)	–	(21,253)	2,694	437,852
Total level 3	$ –	**$ 468,995**	**$ (12,584)**	$ –	**$ (21,253)**	**$ 2,694**	**$ 437,852**

The Company had no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period year ended December 31, 2020.

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

5. Derivative Instruments

Embedded Derivatives

The Company’s embedded derivative related to funds withheld agreements is reported at fair value in funds held by ceding companies on the Balance Sheet with a value of ($17,067) as of December 31, 2021 (2020 - $14,139). The Company recorded a loss of $31,206 on the embedded derivative for the year ended December 31, 2021 (2020 – gain of $14,139). The embedded derivative gains and losses are reported within the net investment gains (losses) line on the Statement of Comprehensive Income.

($ in Thousands, except for par value)

6. Reinsurance

The Company assumes a certain life, annuity, and health business from other insurance companies under reinsurance agreements. The following summarizes the effect of reinsurance on statements of Comprehensive Income (Loss):

	Year ended December 31, 2021		Period ended December 31, 2020	
Premiums				
Reinsurance assumed	$	419,398	$	576,585
Total premiums	$	419,398	$	576,585
Life and annuity benefits and health benefits				
Reinsurance assumed	$	395,998	$	575,533
Total life and annuity benefits and health benefits	$	395,998	$	575,533
Interest credited to policyholder funds				
Reinsurance assumed	$	76,888	$	4,112
Total interest credited to policyholder funds	$	76,888	$	4,112

Reinsurance typically provides recapture rights on the part of the ceding company for certain events of default. Additionally, some reinsurance agreements require the Company to place assets in trust accounts for the benefit of the ceding company. The required minimum assets are determined by statutory reserves, as defined by the agreements and were $173,658 as of December 31, 2021 (2020 - $62,406). Although the Company owns the assets placed in trust, their use is restricted based on the trust agreement terms. If the book value of the assets in the trust decline because of impairment or other reasons, the Company may be required to contribute additional capital to the trust.

Reinsurance transactions

On July 8, 2021, the Company entered into a funds withheld agreement with Commonwealth Annuity and Life Insurance Company (‘CWA’) to reinsure a block of deferred and immediate annuities. The following summarizes this reinsurance transaction:

	CWA	
Liabilities assumed	**$**	**2,239,324**
Less: Assets received		2,377,147
Ceding commission (paid) received		34,000
Net cost of reinsurance	**$**	**(171,823)**
DAC		–
Unearned revenue reserve[1]		(142,806)
Deferred profit liability[2]		(29,017)
Net cost of reinsurance	**$**	**(171,823)**

[1]*Included within policyholder funds on the Balance Sheet*
[2]*Included within Future policy benefits on the Balance Sheet*

($ in Thousands, except for par value)

6. Reinsurance (continued)

On December 31, 2020, the Company entered into a funds withheld agreement with National Western Life Insurance Company ('NWL') to reinsure a block of deferred and immediate annuities. The following summarizes this reinsurance transaction:

		NWL
Liabilities assumed	**$**	**1,722,782**
Less: Assets received		1,816,844
Ceding commission (paid) received		48,000
Net cost of reinsurance	**$**	**(142,062)**
DAC		–
Unearned revenue reserve[1]		(121,641)
Deferred profit liability[2]		(20,421)
Net cost of reinsurance	**$**	**(142,062)**

[1]*Included within policyholder funds on the Balance Sheet*
[2]*Included within Future policy benefits on the Balance Sheet*

On July 1, 2020, the Company entered into a funds withheld agreement with National Guardian Life Insurance Company ('NGL') to reinsure a block of traditional life policies, accident and health policies and deferred annuities. The following summarizes this reinsurance transaction:

		NGL
Liabilities assumed	**$**	**413,901**
Less: Assets received		440,519
Ceding commission (paid) received		(18,000)
Net cost of reinsurance	**$**	**(8,618)**
DAC		18,000
Unearned revenue reserve[1]		(9,000)
Deferred profit liability[2]		(17,618)
Net cost of reinsurance	**$**	**(8,618)**

[1]*Included within policyholder funds on the Balance Sheet*
[2]*Included within Future policy benefits on the Balance Sheet*

7. Deferred Acquisition Costs

The following represents a roll forward of deferred acquisition costs ('DAC'):

Balance as of March 5, 2020	$	–
Deferrals		18,682
Amortization, net of interest		(2,527)
Balance as of December 31, 2020	**$**	**16,155**
Deferrals		714
Amortization, net of interest		(3,663)
Balance as of December 31, 2021	**$**	**13,206**

($ in Thousands, except for par value)

8. Insurance

The following table summarizes the policyholder funds and future policy benefits by product as at December 31:

	2021	2020
Traditional life insurance	$ 173,746	$ 185,271
Accident and health contracts	28,663	31,337
Deferred annuities	3,242,780	1,663,888
Payout annuities	917,206	418,176
Total	**$ 4,362,395**	**$ 2,298,672**

9. Equity

Common stock

The Company has issued one class of common stock, which represents 100% of the total voting power and is beneficially owned by Irizaba Holdco. Total authorized capital of $282,550 (2020 - $158,550) is comprised of 282,550 (2020 - 158,550) shares at par value of $1 each, all of which has been issued to Irizaba Holdco.

Accumulated other comprehensive income ('AOCI')

The following provides the details and changes in AOCI:

	Year ended December 31, 2021	Period ended December 32, 2020
Unrealized gain on AFS Securities		
Balance as of beginning of period	$ 995	$ –
Unrealized holding (losses) gains arising during the period	(4,321)	995
Balance as of end of period	**$ (3,326)**	**$ 995**

10. Income Taxes

The Company is incorporated under the laws of Bermuda and under Bermuda law is not required to pay taxes in Bermuda based upon income or capital gains. The Company, under the Exempted Undertakings Tax Protection Act of 1966, is protected against any legislation that may be enacted in Bermuda which would impose any tax on profits, income or gain until March 31, 2035.

11. Commitments and Contingencies

The Company has agreed to participate in a non-affiliated partnership investment with a total commitment of £28,350 ($38,242) as of December 31, 2021 and 2020. The entire commitment is undrawn as of December 31, 2021.

11. Commitments and Contingencies (continued)

Various lawsuits against the Company may arise in the course of the Company's business. Contingent liabilities arising from litigation, income taxes, and other matters are not considered probable or material in relation to the financial position of the Company.

12. Dividends and Statutory Information

The Company is licensed by the Bermuda Monetary Authority ('BMA') as a Class E long-term insurer and is subject to the Insurance Act 1978 (the 'Act'), as amended and regulations promulgated thereunder. Under the Act, the Company is required to prepare and file three sets of financial statements:

1) *GAAP Financial Statements* – Financial statements prepared in accordance with an internationally recognized comprehensive base of accounting and for which the Company has elected to prepare US GAAP financial statements. These financial statements form the basis for the preparation of both the Statutory Financial Statements and the Economic Balance Sheet.

2) *Statutory Financial Statements ('SFS')* – Financial statements are equal to GAAP financial statements adjusted for:
    a. Prudential filters that include adjustments to eliminate non-admitted assets including goodwill, prepaid assets and other similar intangible assets not considered admissible for solvency purposes and adjustments to include certain assets and liabilities that are generally off-balance sheet under general purposes reporting. These include items such as guarantees and other instruments that do not relate to the insurer's own insurance contracts.
    b. Directions issued by the BMA

3) *Economic Balance Sheet ('EBS')* – A balance sheet composed of assets which are recorded on a GAAP fair value basis and insurance reserves which are based on technical provisions comprised of the sum of a best estimate liability plus a risk margin. The best estimate liability may be calculated by applying the standard approach or scenario approach. Under the standard approach, the discount rate for insurance reserves is a rate prescribed by the BMA. Under the scenario approach, the discount rate for insurance reserves is based on the yield on eligible assets owned by the insurer as determined under the worst result of nine prescribed scenarios.

The Company is also required to maintain minimum solvency capital and surplus to meet the minimum solvency ('MMS') and minimum economic statutory capital and surplus to meet the Enhanced Capital Requirement ('ECR'). For Class E insurers, the MMS is equal to the greater of $8 million or 2% of the first $500 million of Statutory Financial Statement ('SFS') assets plus 1.5% of SFS assets above $500 million, subject to a floor of 25% of the ECR. As of December 31, 2021, and 2020, the Company was in excess of the minimum levels required.

($ in Thousands, except for par value)

12. Dividends and Statutory Information (continued)

Under the Act, the Company is subject to capital requirements calculated using Bermuda Solvency and Capital Requirement (‘BSCR’), which is a standardized statutory risk-based capital model used to measure risk associated with the Company’s assets and liabilities. Under the BSCR, the required capital and surplus is referred to as the ECR. The ECR is equal to the higher of the BSCR and the MSM. The BMA requires all Class E insurers to maintain their capital at a target level which is 120% of the BSCR. As of December 31, 2021, and 2020, the Company held capital in excess of the target level.

The Company has received a directive from the BMA which provides permission to ignore the effects of the Derivatives Implementation Group Statement 133 Implementation Issue No. B36 (‘DIG B36’). For the period ended December 31, 2021, the net income (loss) in these financial statements differs to net income (loss) in the SFS by ($31,206) (2020 - $14,139), due to the permitted practice.

The Company is prohibited from declaring or paying a dividend if its statutory capital and surplus is less than its ECR or if it’s in breach of its solvency margin or if the declaration or payment of such dividend would cause a breach. Further, as a Class E insurer, the Company is prohibited from declaring or paying a divided of more than 25% of its total statutory capital and surplus from the prior year unless if files with the BMA an affidavit attesting that a dividend in excess of this amount would not cause the Company to fail to meet its relevant margins. Further, the Company cannot reduce its statutory capital by more than 15% of the prior year’s statutory capital without BMA approval.

13. Related Parties

The Company is party to a service agreement with its affiliates, Prosperity Services Group LLC (‘PSG’) and Prosperity Services Limited (‘PSL’), each a wholly owned subsidiary of PGH, under which PSG and PSL provide certain accounting, actuarial, investment and administrative services to the Company (the ‘Services Agreement’). During the period, the Company incurred $7,747 (2020 - $2,205), respectively for these services. Amounts due to affiliates as at December 31, 2021 and 2020 were primarily related to the Services Agreement.

The Company reported the following amounts due to affiliates as of December 31:

Due to Affiliates		**2021**		**2020**
Prosperity Services Group LLC	$	1,263	$	940
Prosperity Group Holdings LP		119		652
Prosperity Services Limited		–		517
Shenandoah Life Insurance Company		–		87
Total[1]	**$**	**1,382**	**$**	**2,196**

[1] *Included within Accrued Expenses and Other Liabilities in the Balance Sheet*

13. Related Parties (continued)

Intercompany receivable and payable balances are evaluated on an individual company basis and are generally settled quarterly.

The Company paid a fee of $738 in 2021 (2020 - $1,085) to companies controlled by certain Board Members of Prosperity, in exchange for various management and advisory services.

14. Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through May 25, 2022, the date on which these financial statements were available to be issued and determined there are no other items to disclose.