SFG BERMUDA LTD.

(a wholly owned subsidiary of Sammons Financial Group, Inc.)

FINANCIAL STATEMENTS

FOR THE PERIOD FROM MAY 24, 2021 (DATE OF INCORPORATION) TO DECEMBER 31, 2021

SFG BERMUDA LTD.

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TABLE OF CONTENTS

Report of Independent Auditors

To Management and the Board of Directors of SFG Bermuda Ltd.

Opinion

We have audited the accompanying financial statements of SFG Bermuda Ltd. (the "Company"), which comprise the balance sheet as of December 31, 2021, and the related statement of comprehensive income, of stockholder's equity and of cash flows for the period from May 24, 2021 to December 31, 2021, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the period from May 24, 2021 to December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' 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 auditors' 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 US 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 US 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.

PricewaterhouseCoopers LLP

April 28, 2022

SFG BERMUDA LTD.

(a wholly owned subsidiary of Sammons Financial Group, Inc.)

BALANCE SHEET

(Amounts in Thousands, except share amounts)

	December 31, 2021
ASSETS	
Investments	
Fixed maturities, available-for-sale, at fair value	$ 122,717
Total investments	122,717
Cash	80,494
Funds withheld at interest	3,697,558
Accrued investment income	288
Deferred tax asset	26,909
Deferred policy acquisition costs	86,076
Cost of reinsurance	561,446
Deferred sales inducements	6,853
Reinsurance receivables	12,410
Total assets	$ 4,594,751
LIABILITIES	
Policyholder account balances on reinsurance assumed	4,354,562
Policy claims on reinsurance assumed	9,554
Income tax payable	28,572
Reinsurance payable	6,198
Other liabilities	863
Total liabilities	4,399,749
STOCKHOLDER'S EQUITY	
Common stock, $1 par value	250
Additional paid-in capital	188,500
Retained earnings	6,252
Total stockholder’s equity	195,002
Total liabilities and stockholder's equity	$ 4,594,751

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

SFG BERMUDA LTD.

(a wholly owned subsidiary of Sammons Financial Group, Inc.)

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Period ended December 31, 2021
REVENUES	
Charges on investment-type products	7,199
Net investment income	29,984
Net gains on derivatives and derivative instruments	44,433
Net realized investment gains	(42,562)
Other-than-temporary impairment investment losses	
Other-than-temporary impairment losses	(240)
Net impairment losses recognized in earnings	(240)
Total revenue	38,814
BENEFITS AND EXPENSES	
Index credits and interest credited to policyholder account balances	21,946
Benefits incurred	6,594
Total benefits	28,540
Operating and other expenses (net of commissions and other expenses deferred)	2,359
Total benefits and expenses	30,899
Income before income taxes	7,915
Income tax provision (benefit)	1,663
Net income	$ 6,252
OTHER COMPREHENSIVE INCOME	
Total other comprehensive income	—
Comprehensive income	$ 6,252

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

SFG BERMUDA LTD.
(a wholly owned subsidiary of Sammons Financial Group, Inc.)
STATEMENT OF STOCKHOLDER'S EQUITY
(Amounts in Thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholder's Equity
Balance at May 24, 2021	—	—	—	—	—
Common stock issued	250	—	—	—	250
Total comprehensive income	—	—	6,252	—	6,252
Capital contribution	—	188,500	—	—	188,500
Dividends paid on common stock	—	—	—	—	—
Balance at December 31, 2021	$ 250	$ 188,500	$ 6,252	$ —	$ 195,002

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

SFG BERMUDA LTD.
(a wholly owned subsidiary of Sammons Financial Group, Inc.)
STATEMENT OF CASH FLOWS
(Amounts in Thousands)

	Period ended December 31, 2021
OPERATING ACTIVITIES	
Net income	$ 6,252
Adjustments to reconcile net income to net cash provided by operating activities	
Amortization of deferred policy acquisition costs, deferred sales inducements and cost of reinsurance	—
Policy acquisition costs deferred	(86,076)
Sales inducements deferred	(6,853)
Net realized investment (gains) losses and net impairment losses recognized in earnings	42,802
Noncash net investment income	(29,984)
Net derivative activity	(44,433)
Benefit for deferred income taxes	1,663
Net index credits, interest credited and product charges on interest sensitive and investment-type	14,747
Changes in other assets and liabilities	
Accrued investment income	288
Net receivables	(12,410)
Net payables	7,061
Policy benefits and reserves	6,592
Funds withheld at interest	115,052
Net cash provided by operating activities	$ 14,701
INVESTING ACTIVITIES	
Cost of investments acquired	
Fixed maturities, available-for-sale	
Fixed maturities, available-for-sale	(122,957)
Net cash used in investing activities	$ (122,957)
FINANCING ACTIVITIES	
Issuance of common stock	250
Capital contributions received	188,500
Net cash provided by financing activities	$ 188,750
Net change in cash	$ 80,494
Cash at beginning of year	—
Cash at end of year	$ 80,494

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

SFG Bermuda Ltd. (the "Company"), a Bermuda exempted company, is a wholly owned subsidiary of Sammons Financial Group, Inc. ("SFG"), which is a wholly owned subsidiary of Sammons Enterprises, Inc. ("SEI"). The Company is affiliated through common ownership with Midland National Life Insurance Company ("MNL") and North American Company for Life and Health Insurance ("NAC"). SFG Bermuda Ltd. was incorporated on May 24, 2021 and is registered as a Class C long-term reinsurer under the Insurance Act 1978 of Bermuda.

SFG Bermuda Ltd. is a reinsurer of certain indexed annuity policies issued by affiliates, MNL and NAC under funds withheld coinsurance agreements. The agreements are indemnity agreements that cover 100% quota share of certain inforce fixed indexed annuity products with guaranteed benefits issued by MNL prior to September 30, 2021 and 80% quota share of all new fixed indexed annuity policies including attached riders or supplements sold by MNL and NAC on or after October 1, 2021. The treaties were effective October 31, 2021 for the inforce business and effective October 1, 2021 for new business. Under these agreements, MNL and NAC withhold, on behalf of the Company, assets with statutory book values equal to the statutory liabilities associated with the reinsured policies.

Due to the assumption of an in force block of business from MNL, the Company recognized the the following balances upon inception of the treaty:

(In thousands)		
Assets:		
Cost of reinsurance	$	561,446
Funds withheld at interest		
Market value of assets excluding embedded derivative		3,595,738
Annuity funds withheld embedded derivative		45,868
Total Assets	$	4,203,052
Liabilities:		
Policyholder account balances on reinsurance assumed		3,584,116
Policy claims on reinsurance assumed		618,936
Total Liabilities	$	4,203,052

The funds withheld at interest balance is comprised of the market value of assets in the funds withheld portfolio and a notional hedge portfolio including the value of the derivative embedded in the reinsurance treaties, at the treaty effective date. Policyholder account balances on reinsurance assumed are determined using the retrospective deposit method. Policyholder account balances consist of the net policyholder deposits and credited interest and fixed index credits less charges for mortality and policy administrative expenses. Also included in policyholder account balances are the liability for future returns linked to the performance of an underlying market index and additional reserves for annuities with certain guaranteed minimum withdrawal or guaranteed minimum death benefits assumed. As there can be no gain or loss recognized upon inception of a reinsurance treaty, a cost of reinsurance asset was established to offset the otherwise existing imbalance between assets and liabilities recognized at treaty inception.

Basis of presentation

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

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount 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 significantly from those estimates.

The most significant areas which require the use of management's estimates relate to the determination of the fair values of financial assets and liabilities, derivatives and derivative instruments, impairment of securities, computation of income taxes, and actuarial valuation of cost of reinsurance ("COR"), deferred policy acquisition costs ("DAC"), deferred sales inducements ("DSI") and reserves for benefit riders on annuity contracts.

Fair value of financial assets, financial liabilities and financial instruments

The Company can elect an option to record certain financial assets and financial liabilities at fair value. The election is irrevocable and is made on a contract by contract basis. The Company has not elected to utilize the fair value option for any assets or liabilities.

Fair value estimates are significantly affected by the assumptions used, including discount rates and estimates and timing of future cash flows. Although fair value estimates are calculated using assumptions that management believes are appropriate, changes in assumptions could cause these estimates to vary materially. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in some cases, could not be realized in the immediate settlement of the instruments.

The Company uses the following methods and assumptions in estimating the fair value of its financial instruments:

Fixed maturity securities

Fair value for fixed maturity securities is obtained primarily from independent pricing sources, broker quotes and discounted cash flow models. Fair value is based on quoted market prices, where available. For securities not actively traded, fair value is estimated using values obtained from independent pricing services or broker quotes. When values are not available from pricing services or broker quotes, such as private placements including corporate securities, asset-backed securities, commercial mortgage-backed and residential mortgage-backed securities, fair value may be estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investments.

Funds withheld at interest – embedded derivatives from reinsurance assumed

The funds withheld under the treaties for indexed annuities include a portfolio of cash, fixed maturity securities, preferred equity securities and loans and a notional hedge portfolio of options used to economically hedge index credits on assumed policies. The funds withheld coinsurance treaties create a total return swap to the Company as all investment related risks on the portfolio of fixed maturity securities, preferred equity securities and loans is assumed by Bermuda. The notional hedge portfolio portion of the funds withheld treaties is a derivative used to hedge index credits on assumed polices. Fair value for the embedded derivative related to the cash, fixed maturity securities, preferred equity securities and loans is based on the difference between the fair value and the cost basis of the financial instruments applicable to the Company's coinsurance agreements. The fair value of the derivative that results from the notional hedge portfolio is derived using the the Company's quota share of the option budget and the market values of the options in the portfolio.

Policyholder account balances

The reported value of the Company's investment-type insurance contracts includes the fair value of indexed annuity embedded derivatives which are calculated as the present value of benefits attributable to the excess of the projected contract values over the projected minimum guarantee values using discounted cash flow valuation techniques based on current interest rates adjusted to reflect own credit risk and a risk margin.

Investments and investment income

Fixed maturity securities

The Company is required to classify its fixed maturity securities (bonds and redeemable preferred stocks) into three categories: securities that the Company has the positive intent and the ability to hold to maturity are classified as "held-to-maturity;" securities that are held for current resale are classified as "trading securities;" and securities not classified as held-to-maturity or as trading securities are classified as "available-for-sale." Investments classified as trading or available-for-sale are required to be reported at fair value in the balance sheet. The Company currently has no securities classified as trading or held-to-maturity.

Available-for-sale fixed maturity securities are carried at fair value with the unrealized holding gains (losses) included as a component of other comprehensive income ("OCI") in the statement of comprehensive income. OCI is reported net of related adjustments to intangibles (primarily DAC, DSI, COR and future policy benefits), deferred income taxes and the accumulated unrealized holding gains (losses) on securities sold which are released into income as realized investment gains (losses).

Other-than-temporary impairment losses

The Company reviews its investments to determine if declines in value are other-than-temporary. If the fair value of an available-for-sale fixed maturity security is less than its amortized cost basis at the balance sheet date, the Company must assess whether the impairment is other-than-temporary.

The Company evaluates various factors in its assessment of whether a decline in value is other-than-temporary. Some of the factors evaluated include the issuer's ability to pay the amounts due according to the contractual terms of the investment, the length of time and magnitude by which the fair value is less than amortized cost, adverse conditions specifically related to the security, changes to the rating of the security by a rating agency, changes in the quality of underlying credit enhancements and changes in the fair value of the security subsequent to the balance sheet date.

For fixed maturity securities, when an other-than-temporary impairment ("OTTI") has occurred, the amount of the impairment charged against earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis, the entire impairment is recognized as a charge against earnings. If the Company does not intend to sell the security and it is not more likely than not it will be required to sell the security before recovery of its amortized cost basis, the impairment is bifurcated into a credit related loss and a non-credit related loss. The credit related loss is measured as the difference between the present value of cash flows expected to be collected from the fixed maturity security and the fixed maturity security's amortized cost. The amount of the credit related loss is recognized as a charge against earnings. The difference between the unrealized loss on the impaired fixed maturity security and the credit related loss charged against earnings is the non-credit related loss that is recognized in OCI.

The Company uses a single best estimate of cash flows approach and uses the effective yield prior to the date of impairment to calculate the present value of cash flows. The Company's assumptions for fixed maturity securities include scheduled interest payments and an estimated recovery value, generally based on a percentage return of the current market value.

After an other-than-temporary impairment, the new cost basis is the prior amortized cost less the credit loss. The adjusted cost basis is generally not adjusted for subsequent recoveries in fair value. However, if the Company can reasonably estimate future cash flows after an other-than-temporary impairment and the expected cash flows indicate some or all of the credit related loss will be recovered, the discount or reduced premium recorded is amortized over the remaining life of the security. Amortization in this instance is computed using the prospective method and is determined based on the current estimate of the amount and timing of future cash flows.

Investment income

Investment income is recorded when earned and includes interest and dividends received and accrued, amortization of purchased premium and discounts on securities, and certain proceeds from derivatives, on both assets within the funds withheld portfolio and held directly. Investment expenses are reported as a reduction in investment income.

Net realized investment gains (losses)

Net realized investment gains (losses) are determined on the basis of specific identification of the investments on both assets within the funds withheld portfolio and held directly.

See Note 3 for further discussion of the Company's investments and investment income.

Cash

Cash consists of deposits held by a custodial bank and represents short term, highly liquid investments, which are readily convertible to cash. The Company has deposits with certain financial institutions which exceed federally insured limits. The Company has reviewed the creditworthiness of these financial institutions and believes there is minimal risk of material loss.

Funds withheld at interest

Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with coinsurance agreements in which we act as reinsurer. Generally, assets equal to statutory reserves on the reinsured contracts are withheld and legally owned by the ceding company, and any excess or shortfall is settled periodically. The underlying agreements contain embedded derivatives.

See Note 4 for further discussion of the Company's Funds withheld at interest.

Accrued investment income

Accrued investment income consists of amounts due on invested assets. It excludes amounts the Company does not expect to receive.

Deferred policy acquisition costs

Policy acquisition costs that vary with, and are related to, the successful acquisition of new and renewal insurance contracts assumed via reinsurance are deferred to the extent that such costs are deemed recoverable from future profits. The costs result directly from and are essential to the contract acquisition and would not have been incurred by the Company had the contract acquisition not occurred. Such costs include commissions and ceding allowances assessed by the ceding companies. For indexed annuities, these costs are amortized over the lives of the policies in relation to the present value of actual and estimated gross profits. Recoverability of DAC is evaluated on an annual basis by comparing the current estimate of future profits to the unamortized asset balance.

See Note 6 for further discussion of the Company's DAC.

Deferred sales inducements

The Company defers certain sales inducement costs. Sales inducements consist of premium bonuses on the Company's indexed annuity products assumed via reinsurance. The Company presents capitalized sales inducements net of related amortization separately in the balance sheet and the amortization of the capitalized sales inducements as a separate component of benefits in the statement of comprehensive income in accordance with authoritative guidance. These costs are amortized over the lives of the policies in relation to the present value of actual and estimated gross profits

See Note 6 for further discussion of the Company's DSI.

Cost of Reinsurance

As of the effective date of the treaties with MNL and NAC, the Company recorded liabilities in excess of assets. As there cannot be a gain or loss at inception of a reinsurance treaty, a cost of reinsurance asset was recorded to defer the initial loss. The cost of reinsurance asset is primarily due to the ceding allowance SFG Bermuda Ltd. owed MNL for assumption of a block of in force policies. These costs are amortized over the lives of the policies in relation to the present value of actual and estimated gross profits. Recoverability of COR is evaluated on an annual basis by comparing the current estimate of future profits to the unamortized asset balance.

Adjustments of DAC, DSI, and COR are made periodically upon changes to current estimate of future gross profits on investment-type products to be realized from a group of policies.

To the extent that unrealized investment gains or losses on available-for-sale fixed maturity securities would result in an adjustment to the amortization pattern of DAC, DSI, and COR had those gains or losses actually been realized, the adjustments are recorded directly to stockholder's equity through OCI as an offset to the unrealized investment gains or losses on available-for-sale fixed maturity securities.

Policyholder liabilities

Policyholder account balances on reinsurance assumed

Policyholder account balances assumed are reported in the balance sheet and are determined using the retrospective deposit method. Policyholder account balances consist of the net policyholder deposits and credited interest and fixed index credits less charges for mortality and policy administrative expenses. For certain contracts, crediting rates extend for periods in excess of one year. For annuity contracts with returns linked to the performance of an underlying market index, policyholder reserves equal the combined fair value of the embedded derivative and the guaranteed component of the contract. Included in the Company's policyholder account balances are additional reserves for annuities with certain guaranteed minimum withdrawal or guaranteed minimum death benefits.

Policy claims on reinsurance assumed

The liability for policy claims on reinsurance assumed includes provisions for reported death claims based on the terms of the related contracts.

Recognition of revenue and policy benefits for investment contracts on reinsurance assumed

Investment contracts are issued on a periodic and single premium basis. Amounts collected are credited to policyholder account balances on reinsurance assumed. Revenues from investment contracts consist of charges assessed against policyholder account balances for various guaranteed withdrawal benefits and surrender charges. Policy benefits and claims that are charged to expense include benefits incurred in the period in excess of related policyholder account balances. Benefits also include interest and fixed index amounts credited to the account balances and changes in the additional reserves for benefit riders on annuity contracts assumed.

Income taxes

The Company intends to make an election to be treated as a domestic corporation and will file a separate stand-alone tax return.

The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement and tax return bases of assets and liabilities. Deferred tax assets and liabilities are measured based on enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized.

If applicable, the Company's liability for income taxes would include a liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the IRS or other taxing jurisdictions. The

Company recognizes tax benefits only on tax positions where it is more likely than not to prevail if reviewed by the IRS or another taxing authority.

Comprehensive income

Comprehensive income for the Company includes net income and OCI, which commonly includes net unrealized investment gains (losses) on available-for-sale investments and non-credit portion of OTTI losses. Components of OCI are presented net of intangibles and taxes. No other comprehensive income was recognized in the current year.

2. EFFECTS OF NEW AUTHORITATIVE GUIDANCE

Recently issued authoritative guidance

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued guidance that changes the impairment model for certain financial assets measured at amortized cost from an incurred loss model to an expected loss model. The update also modifies the other-than-temporary impairment model used for available-for-sale fixed maturity securities such that credit loss impairments will be recorded in an allowance account and may be reversed for subsequent recoveries in value. The new guidance, including all subsequent updates to the guidance made via issuance of separate ASUs, will be effective January 1, 2023, as a result of a one year deferral of the effective date by the FASB in 2020. The guidance is to be applied to most instruments in scope using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. For available-for-sale fixed maturity securities, the update is applied prospectively. The Company is currently assessing the impact of the new guidance on its consolidated financial statements.

Targeted Improvements to the Accounting for Long-Duration Contracts

In August 2018, the FASB issued guidance which made targeted changes to the accounting for long duration insurance contracts. These changes include a requirement to review, and if necessary, update cash flow assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts at least annually, with changes recognized in earnings. In addition, an entity will be required to update the discount rate assumption at each reporting date using a yield that is reflective of an upper-medium grade fixed-income instrument, with changes recognized in other comprehensive income. The updates related to traditional and limited-payment contracts are not applicable to the Company at this time, as no such contracts are reinsured. The update also requires that an entity measure all market risk benefits associated with deposit contracts at fair value, with changes recognized in earnings except for the portion attributable to a change in the instrument-specific credit risk, which is to be recognized in other comprehensive income. This update also simplifies the amortization of deferred acquisition costs and balances amortized in a similar manner by requiring amortization on a constant level basis over the expected term of the related contracts. Finally, significant additional disclosures will also be required, which include disaggregated rollforwards of certain liability balances and the disclosure of qualitative and quantitative information about expected cash flows, estimates, and assumptions. The guidance will be effective January 1, 2025. The application of this guidance will vary based upon the specific requirements of the update but will generally result in either a modified retrospective or full retrospective approach with changes applied as of the beginning of the earliest period presented. The Company is currently assessing the impact of the new guidance on its financial statements.

3. INVESTMENTS AND NET INVESTMENT INCOME

Fixed maturity securities

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair value of fixed maturity securities classified as available-for-sale are as follows:

	December 31, 2021			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agencies	$ 122,717	$ —	$ —	$ 122,717
Total available-for-sale	$ 122,717	$ —	$ —	$ 122,717

The following table summarizes the amortized cost and fair value of available-for-sale fixed maturity securities, by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	December 31, 2021	
(In thousands)	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —
Due after one year through five years	—	—
Due after five years through ten years	27,843	27,843
Due after ten years	94,874	94,874
Securities not due at a single maturity date	—	—
Total fixed maturity securities	$ 122,717	$ 122,717

Other-than-temporary impairments

Shortly after purchase of the fixed maturity securities held directly by the Company, market yields increased resulting in an decrease in value of the securities. As a result of the Company's review for impairments of investment securities, the Company concluded that the fixed maturity securities held as of December 31, 2021 were other than temporarily impaired due to the Company's intent to sell the securities prior to recovery of their amortized cost. As a result, an impairment loss of $240 thousand was recognized in earnings.

Net investment income and investment gains (losses)

The major categories of investment income reflected in the statement of comprehensive income are summarized as follows:

	Period ended December 31,
(In thousands)	**2021**
Gross investment income	
Fixed maturity securities	$ 17
Funds withheld at interest	31,690
Cash	5
Total gross investment income	31,712
Less: Investment expenses	1,728
Net investment income	$ 29,984

Investment expenses primarily consist of investment advisor fees and other expenses related to the administration of investments. Interest incurred on repurchase agreements and other borrowings are netted in fixed maturity securities.

The major categories of realized investment gains and (losses) reflected in the statement of comprehensive income are summarized as follows:

	Period ended December 31,
(In thousands)	**2021**
Funds withheld at interest	$ (42,562)
Net realized investment gains	$ (42,562)

Credit risk concentration

The Company generally strives to maintain a diversified invested assets portfolio. Other than investments in U.S. government or U.S. government agencies, the Company had no investments that exceeded 10% of the Company's stockholder's equity at December 31, 2021.

4. FUNDS WITHHELD AT INTEREST

Funds withheld at interest represents the receivable for assets supporting coinsurance. These asset are held in trusts or custodial accounts that are legally segregated from our ceding companies' general accounts. In the event of a ceding company's insolvency, we would need to assert a claim on the assets supporting our reserve liabilities. However, we have the ability to offset amounts we owe to the ceding company, which reduces our risk of loss. The Company is subject to the investment performance and has all economic rights and obligations on the funds withheld assets in a fashion similar to invested assets held directly by the Company. The funds withheld under the treaties for indexed annuities include a portfolio of cash, fixed maturity securities, preferred equity securities and loans and a notional hedge portfolio of options used to economically hedge index credits on assumed policies. The funds withheld coinsurance treaties create a total return swap to the Company as all investment related risks on the portfolio of fixed maturity securities, preferred equity securities and loans is assumed by Bermuda. The notional hedge portfolio portion of the funds withheld treaties is a derivative used to hedge index credits on assumed. The embedded derivative is discussed in Note 5.

The fair value of the underlying assets within the funds withheld at interest is presented below.

	December 31, 2021
(In thousands)	
Cash	$ 83,802
U.S. government and agencies	764,136
Municipal securities	224,268
Corporate securities	2,042,495
Residential mortgage-backed securities	12,860
Commercial mortgage-backed securities	85,791
Asset-backed securities	504,048
Preferred equity securities	132,914
Interest due and accrued	22,377
Repurchase agreements	(290,045)
Notional hedge portfolio	75,530
Receivable from cedants	39,382
Funds withheld at interest	$ 3,697,558

5. DERIVATIVES AND DERIVATIVE INSTRUMENTS

The following table presents the fair value of derivatives and derivative instruments:

	December 31, 2021	
	Fair Value	
(In thousands)	Assets	Liabilities
Derivatives not designated as hedges		
Embedded derivatives		
Funds withheld at interest:	80,506	—
Annuity embedded derivatives assumed:	—	125,446
Total derivatives not designated as hedges	80,506	125,446
Total derivatives	$ 80,506	$ 125,446

Embedded derivatives related to indexed annuity products

The Company's indexed annuity products assumed contain embedded derivatives. The fair value of the embedded options related to these assumed policyholder obligations are based upon current and expected index levels and returns as well as assumptions regarding general policyholder behavior, primarily lapses and withdrawals. These projected benefit values are discounted to the current date using an assumed interest rate consistent with the duration of the liability adjusted to reflect the Company's credit risk and a risk margin. This value is then compared to the carrying value of the liability to calculate any gain or loss that is reflected in the statement of comprehensive income as net gains (losses) on derivatives and derivative instruments.

The Company is the assuming party under two coinsurance with funds withheld reinsurance agreements with affiliated companies. The value of the derivative embedded in the funds withheld coinsurance agreements is equal to the difference between the fair value and cost basis of the cash, fixed maturity securities, preferred equity securities, and loans in the funds withheld portfolio and the total fair value of the notional hedge portfolio. The value of the embedded derivative is reported in the balance sheet in funds withheld at interest. The net change in the reported value of the embedded derivatives is reported in net realized investment gains in the statement of comprehensive income.

See Note 4 for further discussion related to the Company's funds withheld reinsurance agreements.

Other derivative instruments

The following table presents the impact of derivatives and derivative instruments not designated as hedging instruments in the statement of comprehensive income:

(In thousands)	Period ended December 31, 2021
Gains (losses) recognized in:	
Net gains on derivatives and derivative instruments	44,433
	$ 44,433

6. DAC, DSI and COR

The components of DAC are as follows:

(In thousands)	Period ended December 31, 2021
Balance at beginning of year	$ —
Commissions deferred on reinsurance assumed	86,076
Amortization	—
Balance at end of year	$ 86,076

The components of DSI are as follows:

(In thousands)	Period ended December 31, 2021
Balance at beginning of year	$ —
Sales inducement costs deferred on reinsurance assumed	6,853
Amortization	—
Balance at end of year	$ 6,853

The components of COR are as follows:

(In thousands)	Period ended December 31, 2021
Balance at May 24, 2021	$ —
Addition due to new treaties	561,446
Amortization	—
Balance at end of year	$ 561,446

7. REINSURANCE

The Company is party to funds withheld coinsurance agreements with MNL and NAC. The agreements are indemnity agreements that cover 100% quota share of substantially all inforce fixed indexed annuity products with guaranteed benefits issued by MNL prior to September 30, 2021 and 80% quota share of all new fixed indexed annuity policies including attached riders or supplements sold by MNL and NAC on or after October 1, 2021. Under these agreements, MNL and NAC withhold, on behalf of the Company, assets with statutory book values equal to the statutory liabilities associated with these policies. The Company reports the funds withheld assets with statutory book values of $3,653 million in funds withheld at interest in the balance sheet. The funds withheld at interest contains embedded derivatives as discussed in Note 4. The Company reports liabilities assumed under these treaties in policyholder account balances on reinsurance assumed and policy claims on reinsurance assumed in the balance sheet.

The effect of reinsurance on charges on investment-type products and benefits incurred is as follows:

(In thousands)	December 31, 2021
Charges on investment-type products-reinsurance assumed	$ 7,199
Benefits incurred-reinsurance assumed	$ 6,594

8. INCOME TAXES

The significant components of income tax expense are as follows:

(In thousands)	For the Period ended December 31, 2021
Current	$ 28,572
Deferred	(26,909)
Total income tax (benefit) expense	$ 1,663

Total income tax expense attributable to income before taxes equals the amounts that result from applying the U.S. federal statutory rate of 21% in 2021.

The tax effects of temporary differences that give rise to significant portions of deferred income tax assets and deferred income tax liabilities are as follows:

(In thousands)	**December 31, 2021**
Deferred income tax assets	
Policy liabilities and reserves	$ 164,166
Other, net	70
Total deferred income tax assets	$ 164,236
Deferred income tax liabilities	
Investments	
Deferred policy acquisition costs, cost of reinsurance, and deferred sales inducements	(137,327)
Total deferred income tax liabilities	(137,327)
Net deferred income tax asset (liability)	$ 26,909

If the Company determines that any of its deferred tax assets will not result in future tax benefits, a valuation allowance must be established for the portion of these assets that are not expected to be realized. Based upon a review of the Company's anticipated future taxable income and after considering all other available evidence, both positive and negative, the Company's management concluded that it is more likely than not that the gross deferred tax assets will be realized, and no valuation allowance is necessary.

The Company has not established a liability for unrecognized tax benefits and does not expect this to change during the next twelve months. The Company recognizes interest and/or penalties as a component of tax expense. The Company did not have any accrued interest and penalties at December 31, 2021.

9. FAIR VALUE

Fair value is based on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value guidance also establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

The Company determines the fair value of its investments, in the absence of observable market prices, using the valuation methodologies described below applied on a consistent basis. For some investments, market activity may be minimal or nonexistent and management's determination of fair value is then based on the best information available in the circumstances and may incorporate management's own assumptions, which involves a significant degree of judgment.

Investments for which market prices are not observable are generally private investments, securities valued using non-binding broker quotes or securities with very little trading activity. Fair values of private investments are determined by reference to public market or private transactions or valuations for comparable companies or assets in the relevant asset class when such amounts are available. If these are not available, a discounted cash flow analysis using interest spreads adjusted for the maturity/average life differences may be used. Spread adjustments are intended to reflect an illiquidity premium and take into account a variety of factors including but not limited to senior unsecured versus secured, par amount outstanding, number of holders, maturity, average life, composition of lending group, fixed maturity rating, credit default spreads, default rates and credit spreads applicable to the security sector. These valuation methodologies involve a significant degree of judgment.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories.

Level 1 – Quoted prices are available in active markets that the Company has the ability to access for identical financial instruments as of the reporting date. The types of financial instruments included in Level 1 are listed equities, mutual funds, money market funds, non-interest bearing cash, exchange traded futures and options, and separate account assets. As required by the fair value measurements guidance, the Company does not adjust the quoted price for these financial instruments, even in situations where it holds a large position and a sale could reasonably impact the quoted price.

Level 2 – Fair values are based on quoted prices for identical assets or liabilities in active and inactive markets. Inactive markets involve few transactions for identical assets or liabilities and the prices are not current or price quotations vary substantially over time or among market makers, which would include some broker quotes. Level 2 inputs also include corroborated market data such as interest rate spreads, yield curves, volatilities, prepayment speeds, credit risks and default rates. Financial instruments that are generally included in this category include corporate bonds, asset-backed securities, CMOs, less liquid and restricted equity securities and over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the financial instrument and include situations where there is little, if any, market activity for the financial instrument. These inputs may reflect the Company's estimates of the assumptions that market participants would use in valuing the financial instruments. Financial instruments that are included in this category generally include private corporate securities, collateralized fixed maturity obligations and indexed life and annuity embedded derivatives.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. From time to time there may be movements between levels as inputs become more or less observable, which may depend on several factors including the activity of the market for the specific security, the activity of the market for similar securities, the level of risk spreads and the source of the information from which the Company obtains the information.

The Company relies on third party pricing services and independent broker quotes to value fixed maturity and equity securities. The third party pricing services use discounted cash flow models or the market approach to value the securities when the securities are not traded on an exchange. The following characteristics are considered in the valuation process: benchmark yields, reported trades, issuer spreads, bids, offers, benchmark and comparable securities, estimated cash flows and prepayment speeds.

The Company performs both quantitative and qualitative analysis of the prices. The review includes initial and ongoing review of the third party pricing methodologies, back testing of recent trades, and review of pricing trends and statistics.

The following tables summarize the valuation of the Company's financial instruments carried at fair value in the consolidated balance sheets by the fair value hierarchy levels defined in the fair value measurements guidance. Methods and assumptions used to determine the fair values are described in Note 1:

	December 31, 2021			
(In thousands)	Level 1	Level 2	Level 3	Total
Financial assets:				
Fixed maturity securities:				
U.S. government and agencies	$ —	$ 122,717	$ —	$ 122,717
Total available-for-sale securities	—	122,717	—	122,717
Funds withheld at interest				
Funds withheld at interest embedded derivative	—	—	80,506	80,506
Total financial assets	$ —	$ 122,717	$ 80,506	$ 203,223
Financial liabilities:				
Policyholder account balances				
Annuity embedded derivatives assumed	$ —	$ —	$ 125,446	$ 125,446
Total financial liabilities	$ —	$ —	$ 125,446	$ 125,446

The following tables summarize the changes in financial instruments measured at fair value, excluding accrued interest income, for which Level 3 inputs were used to determine fair value:

	Period ended December 31, 2021		
(In thousands)	Purchases	Issuances	Transfers in and/or out of Level 3 (A)
Financial assets:			
Funds withheld at interest embedded derivative	$ 45,868	$ —	$ —
Total financial assets	$ 45,868	$ —	$ —
Financial liabilities:			
Policyholder account balances			
Annuity embedded derivatives assumed (B)	—	135,241	—
Total financial liabilities	$ —	$ 135,241	$ —

(A) There were no transfers in and/or out of Level 3 in the period ended December 31, 2021.

(B) Excludes host accretion and the timing of crediting index credits to policyholder, which are included in interest credited to policyholder account balances in the statement of comprehensive income.

10. STATUTORY FINANCIAL DATA AND DIVIDEND RESTRICTIONS

The Company is licensed by the Bermuda Monetary Authority (BMA) as a long-term insurer and is subject to the Insurance Act 1978, as amended (Bermuda Insurance Act) and regulations promulgated thereunder. The BMA implemented the Economic Balance Sheet (EBS) framework into the Bermuda Solvency Capital Requirement (BSCR), which was granted equivalency to the European Union's Directive (2009/138/EC) (Solvency II). Under this framework a Class C insurer must produce the following:

1. GAAP Financial Statements - Financial statements prepared in accordance with an internationally recognized comprehensive basis 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) - Equal to the GAAP financial statements adjusted for permitted practices issued by the BMA.

3. Economic Balance Sheet - A balance sheet where assets are recorded based on GAAP fair values and insurance reserves 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 the 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 stress scenarios.

Under the Bermuda Insurance Act, long-term reinsurers are required to maintain minimum statutory capital and surplus to meet the minimum margin of solvency (MMS) which is equal to the greater of $500,000 or 1.5% of the total statutory assets, with a floor of 25% of the Enhanced Capital Ratio (ECR). Under the Bermuda Insurance Act, the Company is also required to maintain minimum EBS capital and surplus to meet the ECR which is equal to a risk-based capital model where risk factor charges are applied to the EBS balance sheet in order to determine the ECR. As of December 31, 2021, the Company was in excess of the minimum levels required.

The following table presents the actual and required GAAP and SFS capital and surplus and net income amounts as of and for the period ended December 31, 2021:

	Period ended December 31, 2021	
(In thousands)	**GAAP**	**SFS**
Actual Capital and Surplus	195,002	322,663
Required Capital and Surplus [A]	N/A	68,996
Net Income (Loss)	6,252	133,913

[A] Represents the MMS for the SFS. There is not a required capital and surplus amount for the GAAP financial statements.

Statutory financial statements are generally equivalent to GAAP financial statements, with the exception of permitted practices granted by the BMA. The Company has permission in the statutory financial statements to not recognize the embedded derivatives on indexed annuity products assumed and funds withheld at interest and to remove balance sheet recognition of unrealized gains or losses for assets held directly at SFG Bermuda Ltd. The following represents the effect of the permitted practices to the statutory financial statements:

(In thousands)	**December 31, 2021**
Increase (decrease) to capital and surplus due to permitted practices	127,661
Increase (decrease) to statutory net income due to permitted practices	127,661

To enable the BMA to better assess the quality of the insurer's capital resources, a Class C insurer is required to disclose the makeup of its capital in accordance with the '3-tiered capital system.' Highest quality capital is classified as Tier 1 Capital, lesser quality capital is classified as either Tier 2 Capital or Tier 3 Capital. The Bermuda Insurance Act requires that Class C insurers have Tier 1 Capital equal to or greater than 50% of the value of its ECR and Tier 3 Capital of not more than 17.65% of the aggregate of its Tier 1 Capital and Tier 2 Capital. As of December 31, 2021 all of the eligible capital used by the Company to meet the MSM and ECR was Tier 1 Capital. the Company monitors its capital tiers and any encumbrances on capital when determining capital tiers, including assessing any capital restricted in trusts and coinsurance arrangements.

Under the Bermuda Insurance Act, the Company is prohibited from paying a dividend in an amount exceeding 25% of the prior year's statutory capital and surplus, unless at least two members of the companies' respective board of directors and its principal representative in Bermuda sign and submit to the BMA an affidavit attesting that a dividend in excess of this amount would not cause the subsidiary to fail to meet its relevant margins. In certain instances, the Company would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event that such an affidavit is submitted to the BMA, and further subject to meeting the MMS and ECR requirements, the Company is permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of statutory capital. Distributions in excess of this amount require the approval of the BMA. As of December 31, 2021, the Company is not permitted to remit a dividend to its parent without prior approval from the BMA.

11. OTHER RELATED PARTY TRANSACTIONS

The Company is party to funds withheld coinsurance agreements with MNL and NAC. The agreements are indemnity agreements that cover 100% quota share of certain inforce fixed indexed annuity products with guaranteed benefits issued by MNL prior to September 30, 2021 and 80% quota share of all new fixed indexed annuity policies including attached riders or supplements sold by MNL and NAC on or after October 1, 2021. The treaties were effective October 31, 2021 for the inforce business and effective October 1, 2021 for new business. With the exception of some investment income on assets held directly by the Company and operational expenses, all of the Company's revenues and expenses result from transactions with related parties.

SEI has a noncontrolling interest in Guggenheim Capital, LLC ("Guggenheim"), an investment and advisory firm operating through four business units: Guggenheim Investments, an investment management firm; Guggenheim Securities, an investment banking and capital markets business; Guggenheim Insurance, an owner of controlled and noncontrolled life and annuity insurance businesses; and Guggenheim Institutional Finance, a provider of funding solutions for financial institutions.

GPIM, an indirect subsidiary of Guggenheim within the Guggenheim Investments business unit, provides investment management services for the Company. The fee is calculated based on the average fair value of invested assets under management multiplied by a contractual rate. GPIM manages 100% of the Company's investment portfolio as of December 31, 2021. Fees paid to GPIM for investment management services were $1.7 million in 2021.

12. COMMITMENTS AND CONTINGENCIES

The Company has, in the normal course of business, claims and lawsuits filed against it. In some cases the damages sought are substantially in excess of contractual policy benefits. The Company believes these claims and lawsuits, either individually or in aggregate, will not materially affect the Company's financial position or results of operations.

The Company has unused letter of credit for $491,072,478 as of December 31, 2021. The letters of credit were issued for our reinsurance program and expire on November 30, 2024.

13. SUBSEQUENT EVENTS

The Company evaluated subsequent events through April 28, 2022 which is the date the financial statements were available to be issued.

On March 31, and April 12, 2022, the Company received a $70 million and $61.5 million capital contribution, respectively, from its parent. These capital contributions were made to provide the necessary capital to support the business ceded from MNL and NAC during 2022.