

LOTUS REINSURANCE COMPANY LTD.

Financial Statements and
Report of Independent Auditors

As of and for the periods ended December 31, 2022 and 2021

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Report of Independent Auditors

To the Members of the Finance and Audit Committee of Lotus Reinsurance Company Ltd.

Opinion

We have audited the accompanying financial statements of Lotus Reinsurance Company Ltd. (the “Company”), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of operations and comprehensive income, of equity and of cash flows for the year ended December 31, 2022 and for the period from September 29, 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, 2022 and 2021, and the results of its operations and its cash flows for the year ended December 31, 2022 and for the period from September 29, 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 24, 2023

LOTUS REINSURANCE COMPANY LTD.

Statements of Financial Position

As of December 31, 2022 and 2021 (in thousands, except share amounts)

	2022	2021
ASSETS		
Fixed maturities, available-for-sale, at fair value (allowance for credit losses: 2022 - \$0; 2021 - \$0) (amortized cost: 2022 - \$83,763; 2021 - \$98,295)	\$ 84,224	\$ 113,388
Equity securities, at fair value (cost: 2022 - \$4,923; 2021 - \$0)	4,909	0
Total investments	89,133	113,388
Cash and cash equivalents	301,079	33,576
Accrued investment income	1,443	1,652
Reinsurance recoverables, at fair value(1)	725,484	0
Reinsurance receivables	19,669	0
Income taxes receivable	50,078	0
TOTAL ASSETS	\$ 1,186,886	\$ 148,616
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits, at fair value(1)	\$ 37,912	\$ 24,095
Income taxes payable	0	29
Reinsurance payables	53,519	263
Other liabilities	2,178	260
Total liabilities	93,609	24,647
EQUITY		
Common stock (\$1 par value; 250,000 shares authorized, issued and outstanding)	250	250
Additional paid-in capital	937,989	111,117
Accumulated other comprehensive income (loss)	364	12,025
Retained earnings	154,674	577
Total equity	1,093,277	123,969
TOTAL LIABILITIES AND EQUITY	\$ 1,186,886	\$ 148,616

(1) See Note 4 for additional information.

See Notes to Financial Statements

LOTUS REINSURANCE COMPANY LTD.

Statements of Operations and Comprehensive Income

Year Ended December 31, 2022 and for the Period from September 29, 2021 to December 31, 2021 (in thousands)

	2022	2021
REVENUES		
Net investment income	\$ 8,131	\$ 1,023
Other income (loss)	17,062	0
Total revenues	25,193	1,023
BENEFITS AND EXPENSES		
Changes in fair value of reinsurance balances	(172,798)	15
General, administrative and other expenses	3,034	278
Total benefits and expenses	(169,764)	293
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	194,957	730
Income tax expense (benefit)	40,860	153
NET INCOME (LOSS)	\$ 154,097	\$ 577
Other comprehensive income (loss):		
Net unrealized investment gains (losses)	(14,632)	15,093
Non-performance risk reserve	(128)	128
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(3,099)	3,196
COMPREHENSIVE INCOME (LOSS)	\$ 142,436	\$ 12,602

See Notes to Financial Statements

LOTUS REINSURANCE COMPANY LTD.

Statements of Equity

Year Ended December 31, 2022 and for the Period from September 29, 2021 to December 31, 2021 (in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
BALANCE, SEPTEMBER 29, 2021	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Capital contributions from parent	250	123,609			123,859
Contributed (distributed) capital-parent/ child asset transfers		(12,492)			(12,492)
Comprehensive income:					
Net income (loss)			577		577
Other comprehensive income (loss)				12,025	12,025
Total comprehensive income (loss)					12,602
BALANCE, DECEMBER 31, 2021	250	111,117	577	12,025	123,969
Capital contributions from parent		826,872			826,872
Comprehensive income:					
Net income (loss)			154,097		154,097
Other comprehensive income (loss)				(11,661)	(11,661)
Total comprehensive income (loss)					142,436
BALANCE, DECEMBER 31, 2022	<u>\$ 250</u>	<u>\$ 937,989</u>	<u>\$ 154,674</u>	<u>\$ 364</u>	<u>\$ 1,093,277</u>

See Notes to Financial Statements

LOTUS REINSURANCE COMPANY LTD.

Statements of Cash Flows

Year Ended December 31, 2022 and for the Period from September 29, 2021 to December 31, 2021 (in thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 154,097	\$ 577
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization	(18)	(4)
Change in:		
Future policy benefits, at fair value	13,689	24,223
Reinsurance recoverables, at fair value	(725,484)	0
Income taxes	(135)	153
Other, net	35,728	58
Cash flows from (used in) operating activities	(522,123)	25,007
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	14,549	69
Short-term investments	149,956	0
Payments for the purchase/origination of:		
Equity securities	(4,923)	0
Short-term investments	(149,956)	0
Cash flows from (used in) investing activities	9,626	69
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued	0	250
Capital contributions from parent	780,000	8,250
Cash flows from (used in) financing activities	780,000	8,500
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	267,503	33,576
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	33,576	0
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 301,079	\$ 33,576
SUPPLEMENTAL CASH FLOW INFORMATION		
Income taxes paid (refund)	\$ 40,995	\$ 0

Significant Non-Cash Transactions

The Company received assets in-kind of \$47 million related to tax settlements from Prudential International Insurance Holdings, Ltd. in March 2022 and received invested assets of \$98 million from Prudential Insurance Company of America in October 2021. See Note 8 for additional information.

See Notes to Financial Statements

LOTUS REINSURANCE COMPANY LTD.
Notes to Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Effective February 1, 2022, Lotus Reinsurance Company Ltd., ("Lotus Re" or the "Company") became a wholly-owned subsidiary of Prudential International Insurance Holdings, Ltd. ("PIIH"), which in turn is a direct wholly-owned subsidiary of Prudential Financial, Inc. ("PFI"), a United States of America ("U.S.") Corporation. Prior to February 1, 2022, Lotus Re was wholly-owned by The Prudential Insurance Company of America ("Prudential Insurance"), a direct wholly-owned subsidiary of PFI.

The Company was incorporated as a Bermuda exempted company on August 5, 2021 and licensed as a Class E insurer by the Bermuda Monetary Authority ("BMA"), under the Bermuda Insurance Act of 1978 (the "Act"), on September 29, 2021.

Effective October 1, 2021, the Company entered into a reinsurance agreement with Pruco Life Insurance Company ("Pruco Life"), a wholly-owned subsidiary of Prudential Insurance domiciled in the U.S., to reinsure, on a coinsurance basis, a closed block of variable life policies in the extended term status.

Effective January 1, 2022, Pruco Life recaptured the risks related to a closed block of variable life policies in the extended term status reinsured from October 1, 2021 to December 31, 2021. The Company then entered into reinsurance agreements with Prudential Insurance and Pruco Life to assume a closed block of their variable life business under a coinsurance and modified coinsurance basis including policies in the extended term policy status.

See Note 5 for additional information regarding the Company's reinsurance agreements.

Basis of Presentation

The Company's financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

The Company's financial statements have been prepared for the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in determining the estimated fair value of future policy benefits and valuation of investments.

COVID-19

Since the first quarter of 2020, the novel coronavirus ("COVID-19") has resulted in extreme stress and disruption in the global economy and financial markets. The pandemic has adversely impacted, and may continue to adversely impact, the Company's results of operations, financial condition and cash flows. The risks have manifested, and may continue to manifest, in the Company's financial statements in the areas of, among others, (i) insurance liabilities and related balances: potential changes to assumptions regarding investment returns, mortality, morbidity and policyholder behavior which are reflected in our insurance liabilities and certain related balances and; (ii) investments: increased risk of loss on our investments due to default or deterioration in credit quality or value. The Company cannot predict what impact the COVID-19 pandemic will ultimately have on its business.

LOTUS REINSURANCE COMPANY LTD.
Notes to Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

ASSETS

Fixed maturities, available-for-sale, at fair value (“AFS debt securities”) are comprised of bonds and redeemable preferred stock that are carried at fair value. See Note 4 for additional information regarding the determination of fair value. The purchased cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity or, if applicable, call date.

AFS debt securities, where fair value is below amortized cost, are reviewed quarterly to determine whether the amortized cost basis of the security is recoverable. For AFS debt securities, qualitative factors are first considered including, but not limited to, the extent of the decline and the reasons for the decline in value (e.g., credit events, currency or interest-rate related, including general credit spread widening), and the financial condition of the issuer. If analysis of these qualitative factors results in the security needing to be impaired, a credit impairment will be recognized in earnings as an allowance for credit losses and reported in “Realized investment gains (losses), net,” to the extent the amortized cost exceeds the net present value of projected future cash flows (the “net present value”) for the security.

A credit impairment recorded cannot exceed the difference between the amortized cost and fair value of the respective security. The net present value used to measure a credit impairment is calculated by discounting the Company’s best estimate of projected future cash flows at the effective interest rate implicit in the AFS debt security at the date of acquisition. Once the Company has deemed all or a portion of the amortized cost uncollectible, the allowance is removed from the balance sheet by writing down the amortized cost basis of the AFS debt security. Any amount of an AFS debt security’s change in fair value not recorded as an allowance for credit losses will be recorded in Other Comprehensive Income (loss) (“OCI”).

When an AFS debt security’s fair value is below amortized cost and the Company has the intent to sell the AFS debt security, or it is more likely than not the Company will be required to sell the AFS debt security before its anticipated recovery, the amortized cost basis of the AFS debt security is written down to fair value and any previously recognized allowance is reversed. The write-down is reported in “Realized investment gains (losses), net.”

Interest income, including amortization of premium and accretion of discount, are included in “Net investment income” under the effective yield method. Prepayment premiums are also included in “Net investment income.”

The associated unrealized gains and losses are included in “Accumulated other comprehensive income (loss)” (“AOCI”).

Equity securities, at fair value consist of mutual fund shares carried at fair value. Realized and unrealized gains and losses on these investments are reported in “Other income (loss),” and dividend income is reported in “Net investment income” on the ex-dividend date.

Cash and cash equivalents include cash on hand, amounts due from banks, certain money market investments and funds managed similar to regulated money market funds. These assets are generally carried at fair value or amortized cost which approximates fair value.

Accrued investment income primarily includes accruals of interest income from investments that have been earned but not yet received.

Reinsurance receivables consist of receivables associated with reinsurance arrangements. For additional information about these arrangements, see Note 5.

Reinsurance recoverables, at fair value consist of receivables, carried at fair value, associated with the reinsurance of the Company’s variable life contracts. The contracts are recorded in “Reinsurance Recoverables” or “Future Policy Benefits” when fair value is in an asset or liability position, respectively. The methods and assumptions used to estimate the fair value are consistent with those described below in “Future Policy Benefits.” For additional information about these arrangements see Note 5.

LIABILITIES

Future policy benefits, at fair value are primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality, less the present value of future

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net premiums. This liability includes reserves related to life policies. The Company has elected to use the Fair Value Option ("FVO") to measure these liabilities. For additional information see Note 4.

The impacts to the liability driven by changes in the Company's non-performance risk ("NPR") spread are included in AOCI.

The Company's liability for future policy benefits also includes a liability for unpaid claims. The Company does not establish claim liabilities until a loss has been incurred. However, unpaid claims include estimates of claims that the Company believes have been incurred but have not yet been reported as of the balance sheet date.

Reinsurance payables consist of payables associated with reinsurance arrangements. For additional information about these arrangements, see Note 5.

Other liabilities consist primarily of accrued expenses.

REVENUES, BENEFITS AND EXPENSES

Other income (loss) consists primarily of reinsured revenue sharing of fee income derived from asset managers and distributors, the recognition of gains or losses upon execution or recapture of reinsurance treaties and reinsured gains or losses on separate account trading activity.

Changes in fair value of reinsurance balances consists of (1) Premiums from reinsurance agreements and allowance for commissions and expenses recognized when due; and (2) Policyholders' benefits recognized when incurred. Changes in future policy benefits are recorded when premiums are recognized using a fair value methodology.

OTHER ACCOUNTING POLICIES

Income taxes receivable (payable) primarily represents the net deferred tax asset or liability and the Company's estimated taxes receivable or payable for the current year and open audit years.

The Company has filed an election to be treated as a US taxpayer for federal income tax purposes in accordance with IRC Section 953(d) and is a member of the federal income tax return of PFI. Pursuant to the tax allocation arrangement with PFI, total federal income tax expense is determined on a separate company basis. Members record tax benefits to the extent tax losses or tax credits are recognized in the consolidated federal tax provision.

Items required by tax regulations to be included in the tax return may differ from the items reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements may be different than the actual rate applied on the tax return. Some of these differences are permanent such as expenses that are not deductible in the Company's tax return, and some differences are temporary, reversing over time, such as valuation of insurance reserves. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years for which the Company has already recorded the tax benefit in the Company's Statements of Operations. Deferred tax liabilities generally represent tax expense recognized in the Company's financial statements for which payment has been deferred, or expenditures for which the Company has already taken a deduction in the Company's tax return but have not yet been recognized in the Company's financial statements.

Deferred income taxes are recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes. The application of U.S. GAAP requires the Company to evaluate the recoverability of the Company's deferred tax assets and establish a valuation allowance if necessary to reduce the Company's deferred tax assets to an amount that is more likely than not expected to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. See Note 6 for a discussion of factors considered when evaluating the need for a valuation allowance.

U.S. GAAP prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on tax returns. The application of this guidance is a two-step process. First, the Company determines whether it is more likely than not, based on the technical merits, that the tax position will be sustained upon examination. If a tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The second step is measurement. The Company measures the tax position as the largest amount of benefit that is greater than 50% likely to be realized upon ultimate resolution with a taxing authority that has full knowledge of all relevant information. This measurement considers the amounts

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and probabilities of the outcomes that could be realized upon ultimate settlement using the facts, circumstances, and information available at the reporting date.

The Company accrues a liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing jurisdictions. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards ("tax attributes"), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The Company classifies all interest and penalties related to tax uncertainties as income tax expense. See Note 6 for additional information regarding income taxes.

Reinsurance

For each of its reinsurance contracts, the Company determines if the contract provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. The Company reviews all contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims.

The Company has elected to use the FVO to value the insurance assets and liabilities under reinsurance transactions. The fair value is reported in "Reinsurance recoverables, at fair value" or "Future policy benefits, at fair value." See Note 4 for additional information.

Reinsurance receivables or payables relating to reinsurance agreements with the same counterparty are included in "Reinsurance receivables" or "Reinsurance payables," respectively, on a net basis on the balance sheet as a right of offset exists within the reinsurance agreements. Reinsurance receivables are reported net of the current expected credit loss ("CECL") allowance. The CECL allowance considers the credit quality of the reinsurance counterparty and is generally determined based on the probability of default and loss given default assumptions, after considering any applicable collateral arrangements. The CECL allowance does not apply to reinsurance receivables with affiliated counterparties under common control.

See Note 5 for additional information about the Company's reinsurance agreements.

RECENT ACCOUNTING PRONOUNCEMENTS

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Updates ("ASUs") to the FASB Accounting Standards Codification. The Company considers the applicability and impact of all ASUs. There were no ASUs adopted during the current fiscal year. ASUs issued but not adopted as of December 31, 2022, and as of the date that these financial statements were available to be issued were assessed and determined to be either not applicable or not material.

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Notes to Financial Statements

3. INVESTMENTS

Fixed Maturity Securities

The following tables set forth the composition of fixed maturity securities, as of the dates indicated:

December 31, 2022					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
(in thousands)					
Fixed maturities, available-for-sale:					
Obligations of U.S. states and their political subdivisions	\$ 38,195	\$ 803	\$ 919	\$ 0	\$ 38,079
U.S. public corporate securities	32,365	1,516	493	0	33,388
Foreign public corporate securities	13,203	158	604	0	12,757
Total fixed maturities, available-for-sale	<u>\$ 83,763</u>	<u>\$ 2,477</u>	<u>\$ 2,016</u>	<u>\$ 0</u>	<u>\$ 84,224</u>

December 31, 2021					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
(in thousands)					
Fixed maturities, available-for-sale:					
Obligations of U.S. states and their political subdivisions	\$ 40,178	\$ 7,248	\$ 0	\$ 0	\$ 47,426
Foreign government bonds	5,363	107	0	0	5,470
U.S. public corporate securities	32,422	6,479	0	0	38,901
Foreign public corporate securities	20,332	1,259	0	0	21,591
Total fixed maturities, available-for-sale	<u>\$ 98,295</u>	<u>\$ 15,093</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 113,388</u>

The following tables set forth the fair value and gross unrealized losses on available-for-sale fixed maturity securities without an allowance for credit losses aggregated by investment category and length of time that individual fixed maturity securities had been in a continuous unrealized loss position, as of the dates indicated:

December 31, 2022					
	Less Than Twelve Months		Twelve Months or More		Total
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(in thousands)					
Fixed maturities, available-for-sale:					
Obligations of U.S. states and their political subdivisions	\$ 19,147	\$ 919	\$ 0	\$ 0	\$ 19,147
U.S. public corporate securities	13,904	493	0	0	13,904
Foreign public corporate securities	11,457	604	0	0	11,457
Total	<u>\$ 44,508</u>	<u>\$ 2,016</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 44,508</u>

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As of December 31, 2022, the gross unrealized losses on fixed maturity available-for-sale securities without an allowance were composed of \$2.0 million, related to “1” highest quality or “2” high quality securities based on the National Association of Insurance Commissioners (“NAIC”) or equivalent rating and none related to other than high or highest quality securities based on NAIC or equivalent rating.

The following table sets forth the amortized cost and fair value of fixed maturities by contractual maturities, as of the date indicated:

	December 31, 2022	
	Amortized Cost	Fair Value
	(in thousands)	
Fixed maturities, available-for-sale:		
Due in one year or less	\$ 2,998	\$ 2,979
Due after one year through five years	34,172	33,344
Due after five years through ten years	13,812	15,215
Due after ten years	32,781	32,686
Total	\$ 83,763	\$ 84,224

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

The following table sets forth the sources of fixed maturity proceeds, as of the dates indicated:

	Year Ended December 31, 2022	Period from September 29, 2021 to December 31, 2021
	(in thousands)	
Fixed maturities, available-for-sale:		
Proceeds from sales	\$ 0	\$ 69
Proceeds from maturities/prepayments	\$ 14,549	\$ 0

For the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021, there was no activity in the allowance for credit losses for fixed maturity securities.

See Note 2 for additional information about the Company's methodology for developing our allowance and expected losses.

The Company did not have any fixed maturity securities purchased with credit deterioration as of both December 31, 2022 and 2021.

Equity Securities

The net unrealized gains (losses) from equity securities still held at period end, recorded within "Other income (loss), was \$(14) thousand during the year ended December 31, 2022.

Accrued Investment Income

The following table sets forth the composition of "Accrued investment income" as of the dates indicated:

	December 31, 2022	
	December 31, 2021	
	(in thousands)	
Fixed maturities	\$ 1,428	\$ 1,652
Equity securities	14	0
Cash and cash equivalents	1	0
Total accrued investment income	<u>\$ 1,443</u>	<u>\$ 1,652</u>

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There were no write-downs on accrued investment income for both the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021.

Net Investment Income

The following table sets forth "Net investment income" by investment type, for the periods indicated:

	Year Ended December 31, 2022	Period from September 29, 2021 to December 31, 2021
	(in thousands)	
Fixed maturities, available-for-sale	\$ 4,462	\$ 1,038
Equity securities	101	0
Cash and cash equivalents	3,723	0
Gross investment income	8,286	1,038
Less: investment expenses	(155)	(15)
Net investment income	<u>\$ 8,131</u>	<u>\$ 1,023</u>

Net Unrealized Gains (Losses) on Investments within AOCI

The following table sets forth net unrealized gains (losses) on investments, as of the dates indicated:

	December 31, 2022	December 31, 2021
	(in thousands)	
Fixed maturity securities, available-for-sale	\$ 461	\$ 15,093
Net unrealized gains (losses) on investments	<u>\$ 461</u>	<u>\$ 15,093</u>

4. FAIR VALUE OF ASSETS AND LIABILITIES

Fair Value Measurement – Fair value represents 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 authoritative fair value guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. The Company's Level 1 assets and liabilities primarily include equity securities.

Level 2 - Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs. The Company's Level 2 assets and liabilities include: fixed maturities (corporate public bonds and government securities) and certain cash equivalents.

Level 3 - Fair value is based on at least one significant unobservable input for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value. The Company's Level 3 assets and liabilities primarily include reinsurance recoverables and future policy benefits.

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Assets and Liabilities by Hierarchy Level – The tables below present the balances of assets and liabilities reported at fair value on a recurring basis, as of the dates indicated.

	December 31, 2022				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in thousands)				
Fixed maturities, available-for-sale:					
Obligations of U.S. states and their political subdivisions	\$ 0	\$ 38,079	\$ 0	\$ 0	\$ 38,079
Foreign government bonds	0	0	0	0	0
U.S. corporate public securities	0	33,388	0	0	33,388
Foreign corporate public securities	0	12,757	0	0	12,757
Subtotal	0	84,224	0	0	84,224
Equity securities	4,909	0	0	0	4,909
Cash equivalents	0	205,473	0	0	205,473
Reinsurance recoverables	0	0	725,484	0	725,484
Total assets	\$ 4,909	\$ 289,697	\$ 725,484	\$ 0	\$ 1,020,090
Future policy benefits	\$ 0	\$ 0	\$ 37,912	\$ 0	\$ 37,912
Total liabilities	\$ 0	\$ 0	\$ 37,912	\$ 0	\$ 37,912

	December 31, 2021				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in thousands)				
Fixed maturities, available-for-sale:					
Obligations of U.S. states and their political subdivisions	\$ 0	\$ 47,426	\$ 0	\$ 0	\$ 47,426
Foreign government bonds	0	5,470	0	0	5,470
U.S. corporate public securities	0	38,901	0	0	38,901
Foreign corporate public securities	0	21,591	0	0	21,591
Subtotal	0	113,388	0	0	113,388
Equity securities	0	0	0	0	0
Cash equivalents	0	30,638	0	0	30,638
Reinsurance recoverables	0	0	0	0	0
Total assets	\$ 0	\$ 144,026	\$ 0	\$ 0	\$ 144,026
Future policy benefits	\$ 0	\$ 0	\$ 24,095	\$ 0	\$ 24,095
Total liabilities	\$ 0	\$ 0	\$ 24,095	\$ 0	\$ 24,095

(1) "Netting" amounts represent cash collateral of \$0 million as of both December 31, 2022 and 2021.

The methods and assumptions the Company uses to estimate the fair value of assets and liabilities measured at fair value on a recurring basis are summarized below.

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Fixed Maturity Securities – The fair values of the Company’s public fixed maturity securities are generally based on prices obtained from independent pricing services. Prices for each security are generally sourced from multiple pricing vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. The pricing hierarchy is updated for new financial products and recent pricing experience with various vendors. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs. Typical inputs used by these pricing services include but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flow, prepayment speeds, and default rates. If the pricing service updates the price to be more consistent with the presented market observations, the security remains within Level 2.

The Company conducts several specific price monitoring activities. Daily analysis identifies price changes over predetermined thresholds defined at the financial instrument level. Various pricing integrity reports are reviewed on a daily and monthly basis to determine if pricing is reflective of market activity or if it would warrant any adjustments. Other procedures performed include, but are not limited to, reviews of third-party pricing services methodologies, reviews of pricing trends and back testing.

Equity Securities – Equity securities consist solely of mutual fund shares. The fair values of mutual fund shares that are publicly traded are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the fair value hierarchy.

Cash Equivalents – Cash equivalents include money market instruments and other highly liquid debt instruments. The Company believes that due to the short-term nature of these instruments, the carrying value approximates fair value.

Reinsurance Recoverables – Reinsurance recoverables carried at fair value include the reinsurance of the Company’s variable life contracts. The contracts are recorded in “Reinsurance recoverables, at fair value” or “Future policy benefits, at fair value” when fair value is in an asset or liability position, respectively. The methods and assumptions used to estimate the fair value are consistent with those described below in future policy benefits.

Future Policy Benefits – The FVO is elected by the Company for future policy benefits. As a result, the liabilities are measured at fair value at each financial reporting date reported in "Future policy benefits, at fair value."

The liability for future policy benefits is related primarily to benefits on the Company’s variable life contracts. The Company calculates the fair value of future policy benefits using discounted cashflow models. The fair values of these liabilities are calculated as the present value of future expected benefit payments to customers and the future expected expense allowances, minus the present value of projected future premiums and expected fees attributable to the contracts’ benefits and maintenance. The fair value is based on the in force business and calculated using actuarial and capital market assumptions. This methodology could result in either a liability or asset balance given changes in those assumptions. The models are based on a real world valuation framework, reflecting discounting at the weighted average cost of capital.

Actuarial assumptions, including contractholder behavior and mortality, are reviewed at least annually, and updated based upon emerging experience, future expectations and other data, including any observable market data. These assumptions are generally updated annually unless a material change that the Company feels is indicative of a long-term trend is observed in an interim period. As these significant inputs are not observable, the valuation is accordingly considered as Level 3 in the fair value hierarchy.

Capital market inputs and actual policyholders’ account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates and equity markets. In the real world valuation, the policyholder’s account value growth is modelled using a combination of observable market data and long term capital market assumptions. The weighted average cost of capital used for discounting is based on the cost of debt and cost of equity. The cost of debt is constructed using observable capital market inputs risk-free rates and also includes an adjustment for NPR. The NPR adjustment is calculated using publicly available information related to credit spreads on corporate bonds. The cost of equity is derived based on an internal assumption process that leverages capital asset pricing model theory.

The valuation of the liabilities also includes risk margins that are established to represent the additional compensation a market participant would require to assume the liabilities. The risk margins are calculated using a discounted cost of capital approach. The establishment of the risk margins requires the use of management judgement, including assumptions of the target capital ratios and cost of capital for a market participant.

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Quantitative Information Regarding Internally-Priced Level 3 Assets and Liabilities – The tables below present quantitative information on significant internally-priced Level 3 assets and liabilities.

December 31, 2022						
	Fair Value	Valuation Techniques	Unobservable Inputs (in thousands)	Minimum	Maximum	Impact of Increase in Input on Fair Value(1)
Assets:						
Reinsurance recoverables	\$ 725,484	Discounted cash flow	Lapse rate(3)	0 %	100 %	Decrease
			Morbidity (disability) rate(4)	0 %	1 %	Decrease
			Mortality rate(5)	0 %	100 %	Decrease
			Partial withdrawal(6)	0 %	1 %	Decrease
			Premium persistency(7)	0 %	100 %	Increase
			Target capital level	200 %	200 %	Decrease
			Cost of capital	6.5 %	6.5 %	Decrease
Liabilities:						
Future policy benefits(2)	\$ 37,912	Discounted cash flow	Lapse rate(3)	0 %	100 %	Increase
			Morbidity (disability) rate(4)	0 %	1 %	Increase
			Mortality rate(5)	0 %	100 %	Increase
			Partial withdrawal(6)	0 %	1 %	Increase
			Premium persistency(7)	0 %	100 %	Decrease
			Target capital level	200 %	200 %	Increase
			Cost of capital	6.5 %	6.5 %	Increase
December 31, 2021						
	Fair Value	Valuation Techniques	Unobservable Inputs (in thousands)	Minimum	Maximum	Impact of Increase in Input on Fair Value(1)
Liabilities:						
Future policy benefits(2)	\$ 24,095	Discounted cash flow	Lapse rate(3)	2 %	47 %	Increase
			Mortality rate(5)	0 %	100 %	Increase
			Target capital level	200 %	200 %	Increase
			Cost of capital	6.5 %	6.5 %	Increase

- (1) Conversely, the impact of a decrease in input would have the opposite impact on fair value as that presented in the table.
- (2) Since the valuation methodology for the future policy benefits uses a range of inputs that vary at the product level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.
- (3) For any given contract, lapse rates vary throughout the period over which cash flows are projected for the purposes of valuing the liability. Lapse rates are also generally assumed to be lower for the period where surrender charges apply.
- (4) Morbidity rates vary by product, age and duration.
- (5) Mortality rates may vary by product, age and duration. A mortality improvement assumption is also incorporated into the overall mortality table.
- (6) The partial withdrawal rate assumption estimate the magnitude of total account value policyholder will withdraw, where contractually allowed under the contract. Partial Withdrawal assumption varies by product, age and duration.
- (7) Premium persistency varies by product, age, duration and contract funding status.

Changes in Level 3 Assets and Liabilities – The change in fair value of Level 3 assets and liabilities relating to issuances of reinsurance recoverables were \$878 million and \$0 for the years ended December 31, 2022 and 2021, respectively. Issuances of future policy benefits were \$245 million and \$24 million for the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021, respectively.

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Transfers – All transfers are based on changes in the observability of the valuation inputs, including the availability of pricing service information that the Company can validate. Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies and the use of indicative broker quotes for assets that were previously valued using observable inputs. Transfers out of Level 3 are generally due to the use of observable inputs in valuation methodologies as well as the availability of pricing service information for certain assets that the Company can validate.

There have been no transfers into or out of Level 3 for the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021.

Fair Value of Financial Instruments

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. The financial instruments presented below are reported at carrying value on the Company's Statements of Financial Position. In some cases, as described below, the carrying amount equals or approximates fair value.

	December 31, 2022				
	Fair Value				Carrying Amount
	Level 1	Level 2	Level 3	Total	Total
	(in thousands)				
Assets:					
Cash and cash equivalents	\$ 95,606	\$ 0	\$ 0	\$ 95,606	\$ 95,606
Accrued investment income	0	1,443	0	1,443	1,443
Total assets	\$ 95,606	\$ 1,443	\$ 0	\$ 97,049	\$ 97,049
Liabilities:					
Other liabilities	\$ 0	\$ 2,178	\$ 0	\$ 2,178	\$ 2,178
Total liabilities	\$ 0	\$ 2,178	\$ 0	\$ 2,178	\$ 2,178

	December 31, 2021				
	Fair Value				Carrying Amount
	Level 1	Level 2	Level 3	Total	Total
	(in thousands)				
Assets:					
Cash and cash equivalents	\$ 2,938	\$ 0	\$ 0	\$ 2,938	\$ 2,938
Accrued investment income	0	1,652	0	1,652	1,652
Total assets	\$ 2,938	\$ 1,652	\$ 0	\$ 4,590	\$ 4,590
Liabilities:					
Other liabilities	\$ 0	\$ 260	\$ 0	\$ 260	\$ 260
Total liabilities	\$ 0	\$ 260	\$ 0	\$ 260	\$ 260

The fair values presented above have been determined by using available market information and by applying market valuation methodologies, as described in more detail below.

Cash and Cash Equivalents and Accrued Investment Income

The Company believes that due to the short-term nature of certain assets, the carrying value approximates fair value. These assets include cash and cash equivalent instruments and accrued investment income that meet the definition of financial instruments.

Other Liabilities

Other liabilities are primarily payables, such as accrued expense payables. Due to the short-term until settlement of most of these liabilities, the Company believes that carrying value approximates fair value.

LOTUS REINSURANCE COMPANY LTD.
Notes to Financial Statements

5. REINSURANCE

The Company participates in reinsurance with its affiliate Prudential Insurance and Pruco Life.

Significant effects of reinsurance amounts included in the Company's Statements of Financial Position as of December 31, were as follows:

	2022	2021
	(in thousands)	
Reinsurance recoverables, at fair value	\$ 725,484	\$ 0
Reinsurance receivables	\$ 19,669	\$ 0
Future policy benefits, at fair value	\$ 37,912	\$ 24,095
Reinsurance payables	\$ 53,519	\$ 263

Significant effects of reinsurance amounts included in the Company's Statements of Operations and Comprehensive Income were as follows:

	Year Ended December 31, 2022	Period from September 29, 2021 to December 31, 2021
	(in thousands)	
Changes in fair value of reinsurance balances		
Reinsurance assumed(1)	\$ (142,299)	\$ 15
Reinsurance ceded	(30,499)	0
Net changes in fair value of reinsurance balances	<u>\$ (172,798)</u>	<u>\$ 15</u>

(1) Includes gains (losses) the Company recognized as a result of reinsurance agreements entered into during the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021.

The gross amounts of life insurance face amount in force as of December 31, were as follows:

	2022	2021
	(in thousands)	
Assumed gross life insurance face amount in force	\$ 85,386,304	\$ 294,132
Reinsurance ceded	(14,291,911)	0
Net life insurance face amount in force	<u>\$ 71,094,393</u>	<u>\$ 294,132</u>

Information regarding significant reinsurance agreements is described below.

Pruco Life

From October 1, 2021 to December 31, 2021, the Company entered into an automatic coinsurance agreement with Pruco Life to reinsure a closed block of variable life policies in the extended term policy status.

Effective January 1, 2022, Pruco Life recaptured the risks related to a closed block of variable life policies in the extended term status, which had previously been reinsured to the Company on a coinsurance basis, from October 1, 2021 to December 31, 2021. The Company held a Future policy benefits liability, at fair value of \$24 million at December 31, 2021 for the block. Immediately thereafter, effective January 1, 2022, the Company entered into a reinsurance agreement with Pruco Life to assume 100% of the risks associated with a closed block of Variable Life business under a coinsurance and modified coinsurance basis including policies in the extended term policy status. In order to satisfy collateral support obligations stated in the reinsurance agreement, as of December 31, 2022 the Company had executed a \$1.1 billion letter of credit with an external counterparty for Pruco Life.

Effective January 1, 2022, Pruco Life entered into an automatic Yearly Renewable Term ("YRT") agreement with the Company to cede back a portion of the mortality risk associated with the reinsured policies for the purposes of Pruco Life maintaining YRT reinsurance with external counterparties.

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Prudential Insurance

Effective January 1, 2022, the Company entered into a reinsurance agreement with Prudential Insurance to assume 90% of the risks associated with a closed block of Variable Life business under a coinsurance and modified coinsurance basis including policies in the extended term policy status. In order to satisfy collateral support obligations stated in the reinsurance agreement, as of December 31, 2022 the Company had executed a \$1.2 billion letter of credit with an external counterparty for Prudential Insurance.

Effective January 1, 2022, Prudential Insurance entered into an automatic YRT agreement with the Company to cede back a portion of the mortality risk associated with the reinsured policies for the purposes of Prudential Insurance maintaining YRT reinsurance with external counterparties.

6. INCOME TAXES

Changes in Tax Law

Inflation Reduction Act. In August 2022, President Biden signed into law the Inflation Reduction Act of 2022 (the “Inflation Reduction Act”). Among other provisions, the Inflation Reduction Act imposes (1) a 15% alternative minimum tax on corporations (“CAMT”) with average applicable financial statement income over \$1 billion for any three-year period ending with 2022 or later; and (2) a 1% excise tax on the fair market value of stock that is repurchased by publicly traded U.S. corporations or their specified affiliates. Both provisions are effective in taxable years beginning after December 31, 2022. The impact of the alternative minimum tax, if any, will vary from year to year based on the relationship of our GAAP income to our taxable income. Additionally, there remain several open items with respect to the application of the alternative minimum tax on corporations, including how to apply the provision to insurance company separate accounts and certain forms of reinsurance, which will inform how and to what degree this tax impacts the Company.

Income Tax Components

The following schedule discloses significant components of income tax expense (benefit) for the period presented:

	Year Ended December 31, 2022	Period from September 29, 2021 to December 31, 2021
	(in thousands)	
Current tax expense (benefit):		
U.S. federal	\$ 65,226	\$ 514
Total current tax expense (benefit)	65,226	514
Deferred tax expense (benefit):		
U.S. federal	(24,367)	(361)
Total deferred tax expense (benefit)	(24,367)	(361)
Total income tax expense (benefit)	\$ 40,860	\$ 153

Reconciliation of Expected Tax at Statutory Rates to Reported Income Tax Expense (Benefit)

The differences between income taxes expected at the U.S. federal statutory income tax rate of 21% applicable for the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021, the the reported income tax expense (benefit) are summarized as follows:

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	Year Ended December 31, 2022	Period from September 29, 2021 to December 31, 2021
	(in thousands)	
Reported Income Tax Expense (Benefit)		
Expected federal income tax expense (benefit)	\$ 40,941	\$ 153
Non-taxable investment income	(86)	0
State taxes	5	0
Reported Income Tax Expense (Benefit)	\$ 40,860	\$ 153
Effective tax rate	20.96 %	21.00 %

Schedule of Deferred Tax Assets and Deferred Tax Liabilities

	As of December 31, 2022	As of December 31, 2021
	(in thousands)	
Deferred tax assets:		
Policyholder Dividend	\$ 302	\$ 0
Deferred policy acquisition costs	23,943	439
Investments	3,881	124
Deferred tax assets	28,126	563
Deferred tax liabilities:		
Net unrealized gain on securities	97	0
Other	78	78
Deferred tax liabilities	175	78
Net deferred tax asset/(liability)	\$ 27,951	\$ 485

The application of U.S. GAAP requires the Company to evaluate the recoverability of deferred tax assets and establish a valuation allowance if necessary to reduce the deferred tax asset to an amount that is more likely than not expected to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, the Company considers many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) in which tax jurisdictions they were generated and the timing of their reversal; (4) taxable income in prior carryback years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (5) the length of time that carryovers can be utilized in the various taxing jurisdictions; (6) any unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that the Company would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized.

The Company had no valuation allowance as of December 31, 2022 and 2021. Adjustments to the valuation allowance will be made if there is a change in management's assessment of the amount of deferred tax asset that is realizable.

Tax Audit and Unrecognized Tax Benefits

The Company's liability for income taxes includes the liability for unrecognized tax benefits and interest that relate to tax years still subject to review by the IRS or other taxing authorities. The completion of review or the expiration of the Federal statute of limitations for a given audit period could result in an adjustment to the liability for income taxes.

The Company had no unrecognized tax benefits as of December 31, 2022 and 2021. The Company does not anticipate any significant changes within the next twelve months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

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The Company classifies all interest and penalties related to tax uncertainties as income tax expense (benefit). In 2022 and 2021, the Company recognized \$0 for tax related interest and penalties.

The tax years that remain subject to examination by the U.S. tax authorities at December 31, 2022 are 2021 and 2022.

The Company participates in the IRS's Compliance Assurance Program. Under this program, the IRS assigns an examination team to review completed transactions as they occur in order to reach agreement with the Company on how they should be reported in the relevant tax returns. If disagreements arise, accelerated resolutions programs are available to resolve the disagreements in a timely manner.

7. EQUITY

The Bermuda capital and solvency return is an annual return relating to an insurer's risk management practices and information used by an insurer to calculate its Enhanced Capital Requirement ("ECR") and Target Capital Level ("TCL") as prescribed by Prudential Standard Rules made under section 6A of the Act. Every Class E insurer shall submit to the BMA a completed capital and solvency return on or before its filing date.

The capital and solvency model is used to calculate an insurer's ECR, a capital and surplus requirement imposed by Rules made under section 6A of the Act. The ECR of an insurer shall be calculated at the end of its relevant year by the higher of the Bermuda Solvency Capital Requirement ("BSCR") model or an approved internal model, if applicable, provided that the ECR amount is equal to or exceeds the Minimum Margin of Solvency. The TCL of an insurer is calculated as 120% of the ECR and although not a capital requirement per se, insurers are expected to hold eligible capital resources to cover it; failure to do so will result in additional reporting requirements and enhanced monitoring, and in the submission of a remediation plan to restore capital above the TCL.

The BSCR model calculates a risk-based capital measure by applying capital factors to capital and solvency return elements, including investments and other assets, operational risk, and Long-Term insurance risks, in order to establish an overall measure of capital and surplus for statutory solvency purposes. The capital factor established for each risk element, when applied to that element, produces a required capital and surplus amount. The individual capital amounts generated for each risk element (excluding operational risk) are then summed. Covariance adjustments are made to arrive at the BSCR (after covariance adjustment), which may be further adjusted to include insurer-specific operational risk and capital add-ons, as assessed by the BMA, to finally produce the BSCR of an insurer.

An insurer's available statutory capital and surplus divided by the BSCR gives the BSCR ratio. An insurer's available statutory capital and surplus divided by the ECR gives the ECR ratio. The BSCR and ECR ratios will assist the BMA to evaluate the financial strength of an insurer.

The BSCR, ECR and TCL establish solvency capital levels that are used by the BMA to monitor the capital adequacy of the Company as a Class E insurer.

Return of Capital

Through December 31, 2022 and 2021, the Company had no returns of capital.

Return of Capital Restrictions

Any return of contributed capital that would reduce the Company's total statutory capital (share capital and contributed surplus) by 15% or more must be approved by the BMA.

Dividends

Through December 31, 2022 and 2021, the Company did not pay any dividends.

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Dividend Restrictions

The Company may not pay dividends during any financial period if such payment would cause the Company to fail to meet its minimum solvency margin as defined in the Act. Further, the Company may not distribute a dividend to any person other than a policyholder unless the value of the assets of its long-term business fund, as certified by the Company's approved actuary, exceeds its insurance and other liabilities.

The Company may not pay a dividend or a distribution out of contributed surplus unless there are reasonable grounds for believing the Company will be remain able, and after the payment of the dividend or distribution, to meet its liabilities when they become due and that the realizable value of the Company's assets will, after the payment of the dividend or distribution, be greater than value of its liabilities.

Furthermore, dividends up to 25% of total statutory capital and surplus require Board approval. Dividends above 25% of total statutory Capital and Surplus require Board approval and an affidavit, signed by at least two Directors and the Company's Principal Representative, filed with the BMA at least seven days prior to payment of the dividend.

Common Stock

As of December 31, 2022 and 2021, Lotus Re had 250,000 shares of common stock authorized, issued and outstanding. The total shares of common stock outstanding were 100% owned by Prudential Insurance. Effective February 1, 2022, Prudential Insurance transferred 100% of its ownership to PIIH.

Accumulated Other Comprehensive Income (Loss)

AOCI represents the cumulative OCI items that are reported separate from net income and detailed on the Statements of Operations and Comprehensive Income. The balance of and changes in each component of AOCI as of and for the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021 are as follows:

	Accumulated Other Comprehensive Income (Loss)		
	NPR adjustment to Future Policy Benefits	Net Unrealized Investment Gains (Losses)	Total Accumulated Other Comprehensive Income (Loss)
	(in thousands)		
Balance, September 29, 2021	\$ 0	\$ 0	\$ 0
Change in OCI before reclassifications	128	15,093	15,221
Income tax benefit (expense)	(27)	(3,169)	(3,196)
Balance, December 31, 2021	\$ 101	\$ 11,924	\$ 12,025
Change in OCI before reclassifications	(128)	(14,632)	(14,760)
Income tax benefit (expense)	27	3,072	3,099
Balance, December 31, 2022	<u>\$ 0</u>	<u>\$ 364</u>	<u>\$ 364</u>

Reclassification out of Accumulated Other Comprehensive Income (Loss)

For the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021, the Company had zero net unrealized investment gains (losses) reclassified from AOCI.

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains (losses) on available-for-sale fixed maturity securities are included in the Company's Statements of Financial Position as a component of AOCI. Changes in these amounts include reclassification adjustments to exclude from OCI those items that are included as part of "Net income (loss)" for a period that had been part of OCI in earlier periods. There are no amounts related to available-for-sale fixed maturity securities on which an allowance for credit losses has been recognized as of December 31, 2022. The amounts for the periods indicated below, are as follows:

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	Net Unrealized Investment Gains (Losses) on Available-for-Sale Fixed Maturity Securities	Income Tax Benefit (Expense)	Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses)
	(in thousands)		
Balance, September 29, 2021	\$ 0	\$ 0	\$ 0
Net unrealized investment gains (losses) on investments arising during the period	15,093	(3,169)	11,924
Balance, December 31, 2021	\$ 15,093	\$ (3,169)	\$ 11,924
Net unrealized investment gains (losses) on investments arising during the period	(14,632)	3,072	(11,560)
Balance, December 31, 2022	<u>\$ 461</u>	<u>\$ (97)</u>	<u>\$ 364</u>

8. RELATED PARTY TRANSACTIONS

The Company has extensive transactions and relationships with Prudential Insurance, Prudential International Insurance Service Company, LLC ("PIISC") and other affiliates.

Expense Charges and Allocations

The majority of the Company's expenses are allocations and charges from Prudential Insurance and PIISC. These affiliates and the Company operate under service agreements whereby certain general and administrative support services are provided to the Company by Prudential Insurance and PIISC. The Company periodically reviews its methods for determining the level of administrative expenses charged to the Company. These agreements obligate the Company to compensate Prudential Insurance and PIISC for the appropriate cost of providing such services. General and administrative support expenses related to these agreements were \$1 million and \$0.2 million for the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021, respectively. These expenses are recorded as "General, administrative and other expenses" in the Statements of Operations and Comprehensive Income.

Affiliated Investment Management Expenses

The Company entered into an investment advisory agreement with PGIM, Inc. ("PGIM"), a PFI affiliated company, whereby PGIM provides discretionary investment advisory services to the Company, as directed by the Company's Investment Committee. Investment expenses paid to PGIM related to this agreement were \$155 thousand and \$15 thousand for the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021, respectively. These expenses are recorded as "Net investment income" in the Statements of Operations and Comprehensive Income.

Affiliated Asset Transfers

The table below shows affiliated asset trades for the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021:

Affiliate	Date	Transaction	Security Type	Fair Value	Book Value	APIC, Net of Tax Increase/ (Decrease)
(in thousands)						
Prudential Insurance	October 2021	Transfer In	Fixed Maturities	\$ 114,173	\$ 98,360	\$ (12,492)

Capital Contributions from Parent and Dividends

The Company received capital contributions of \$827 million from PIH and \$124 million from Prudential Insurance during the year ended December 31, 2022 and for the period from September 29, 2021 to December 31, 2021, respectively. The capital contributions included \$47 million and \$98 million of non-cash contributions in 2022 and 2021, respectively.

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Through December 31, 2022 and 2021, the Company did not pay any dividends.

Reinsurance with Affiliates

As discussed in Note 5, the Company participates in reinsurance transactions with Pruco Life and Prudential Insurance.

9. LITIGATION

The Company is subject to legal and regulatory actions in the ordinary course of its business. The Company may also be subject to litigation that could arise out of its general business activities, such as its investments and third party contracts. Should such litigation arise, the plaintiffs may seek large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain. It is possible that the results of operations or the cash flow of the Company in a particular annual period could be materially affected by any ultimate unfavorable resolution of litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period.

There are no pending legal or regulatory actions that are specific to the Company.

10. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 24, 2023, the date these audited financial statements were issued. No subsequent events were identified requiring recognition or disclosure in the financial statements.