SFG BERMUDA LTD.

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

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

SFG BERMUDA LTD.
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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 sheets as of December 31, 2023 and 2022, and the related statements of comprehensive income, of stockholder's equity and of cash flows for the years then ended, 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, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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.

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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

Des Moines, IA
April 22, 2024

SFG BERMUDA LTD.
(a wholly owned subsidiary of Sammons Financial Group, Inc.)
BALANCE SHEETS
(Amounts in Thousands, except share amounts)

	December 31, 2023	December 31, 2022
ASSETS		
Investments		
Fixed maturities available-for-sale, at fair value (net of allowance for credit losses of $40 and $0, respectively); amortized cost: $165,826 and $212,564, respectively	$ 145,753	$ 184,409
Equity securities, at fair value	1,792	4,598
Total investments	147,545	189,007
Cash	926	41,776
Funds withheld at interest	12,542,822	8,509,164
Accrued investment income	1,191	1,493
Income tax receivable	7,398	7,398
Deferred tax asset	55,665	149,435
Deferred policy acquisition costs	1,186,595	724,596
Cost of reinsurance	561,446	561,446
Deferred sales inducements	161,682	80,711
Total assets	$ 14,665,270	$ 10,265,026
LIABILITIES		
Policyholder account balances on reinsurance assumed	13,727,999	9,978,396
Policy claims on reinsurance assumed	36,827	14,164
Reinsurance payable	17,768	60,912
Other liabilities	474	419
Total liabilities	13,783,068	10,053,891
STOCKHOLDER'S EQUITY		
Common stock, $1 par value	250	250
Additional paid-in capital	1,001,040	681,040
Retained earnings	(103,262)	(447,912)
Accumulated other comprehensive income (loss)	(15,826)	(22,243)
Total stockholder’s equity	882,202	211,135
Total liabilities and stockholder's equity	$ 14,665,270	$ 10,265,026

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

SFG BERMUDA LTD.

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

STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Year Ended December 31, 2023	Year Ended December 31, 2022
REVENUES		
Charges on investment-type products	$ 62,901	$ 37,330
Net investment income	401,531	157,331
Net gains (losses) on derivatives and derivative instruments	493,681	(797,721)
Net realized investment gains (losses)	(60,892)	(79,060)
Total revenue	897,221	(682,120)
BENEFITS AND EXPENSES		
Index credits and interest credited to policyholder account balances	207,972	55,911
Benefits incurred	112,542	(180,839)
Amortization of deferred sales inducements	14,843	—
Total benefits	335,357	(124,928)
Operating and other expenses (net of commissions and other expenses deferred)	20,620	13,555
Amortization of deferred policy acquisition costs	104,530	—
Total benefits and expenses	460,507	(111,373)
Income before income taxes	436,714	(570,747)
Income tax provision (benefit)	92,064	(116,583)
Net income (loss)	$ 344,650	$ (454,164)
OTHER COMPREHENSIVE INCOME		
Net unrealized gain (loss) on available-for-sale investments	$ 6,417	$ (22,243)
Total other comprehensive income (loss)	6,417	(22,243)
Comprehensive income (loss)	$ 351,067	$ (476,407)

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

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
Balance at December 31, 2021	$ 250	$ 188,500	$ 6,252	$ —	$ 195,002
Total comprehensive income (loss)	—	—	(454,164)	(22,243)	(476,407)
Capital contribution	—	492,540	—	—	492,540
Balance at December 31, 2022	$ 250	$ 681,040	$ (447,912)	$ (22,243)	$ 211,135
Total comprehensive income (loss)	—	—	344,650	6,417	351,067
Capital contribution	—	320,000	—	—	320,000
Balance at December 31, 2023	$ 250	$ 1,001,040	$ (103,262)	$ (15,826)	$ 882,202

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

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

	Year Ended December 31, 2023	Year Ended December 31, 2022
OPERATING ACTIVITIES		
Net income (loss)	$ 344,650	$ (454,164)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Amortization of deferred policy acquisition costs, deferred sales inducements and cost of reinsurance	119,373	—
Policy acquisition costs deferred	(566,529)	(638,520)
Sales inducements deferred	(95,814)	(73,858)
Net realized investment (gains) losses and net impairment losses recognized in earnings	60,892	79,060
Noncash net investment income	(394,828)	(150,773)
Net derivative activity	(493,681)	797,721
Provision (benefit) for deferred income taxes	92,064	(116,613)
Net index credits, interest credited and product charges on investment-type products	145,071	18,581
Changes in other assets and liabilities		
Accrued investment income	302	(1,205)
Net reinsurance receivables/payables	(43,144)	67,124
Net income tax receivable/payable	—	(35,970)
Other liabilities	55	(444)
Policy benefits and reserves	135,132	(176,259)
Funds withheld at interest	286,906	263,569
Net cash provided by (used in) operating activities	$ (409,551)	$ (421,751)
INVESTING ACTIVITIES		
Proceeds from investments sold, matured or repaid		
Fixed maturities, available-for-sale	399,963	215,726
Equity securities	2,626	—
Short term investments	1,198,600	1,576,200
Cost of investments acquired		
Fixed maturities, available-for-sale	(354,120)	(320,336)
Equity securities	—	(4,921)
Short term investments	(1,198,368)	(1,576,176)
Net cash provided by (used in) investing activities	48,701	(109,507)
FINANCING ACTIVITIES		
Capital contributions received	320,000	492,540
Net cash provided by financing activities	320,000	492,540
Net change in cash	(40,850)	(38,718)
Cash at beginning of year	41,776	80,494
Cash at end of year	$ 926	$ 41,776

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"). The Company was incorporated on May 24, 2021 and is registered as a Class C long-term reinsurer under the Insurance Act 1978 of Bermuda, as amended ("Bermuda Insurance Act").

The Company is a reinsurer of certain fixed and 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 in-force fixed indexed annuity policies with guaranteed benefits issued by MNL prior to September 30, 2021, 80% quota share of certain new fixed indexed annuity policies including attached riders sold by MNL and NAC on or after October 1, 2021 and 80% quota share of all multi-year guaranteed annuities including attached riders sold by MNL and NAC from July 1, 2022 to December 31, 2022. The treaties were effective October 31, 2021 for the in-force 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. Effective October 1, 2023, for new policies issued on or after October 1, 2023, the 80% quota share is structured as a combination of funds withheld and coinsurance.

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 and allowances for expected credit losses, 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 and equity securities

Fair value for fixed maturity and equity 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 are assumed by the Company. The notional hedge portfolio portion of the funds withheld treaties is a derivative used to hedge index credits on assumed policies. 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 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 contracts includes the fair value of indexed annuity embedded derivatives which is 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 sheets. 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), net of allowances for expected credit losses, included as a component of other comprehensive income ("OCI") in the statements 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).

Equity securities

Equity securities include common stock and non-redeemable preferred stock. Equity securities are carried at fair value with subsequent changes in fair value recognized in net realized investment gains (losses) in the statements of comprehensive income.

Credit losses - available-for-sale securities

The Company reviews its investments to determine whether the amortized cost basis of the securities is recoverable. 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 amortized cost basis of the security is written down to fair value through net realized investment gains (losses). 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, management evaluates whether the decline in fair value has resulted from credit losses or other factors. This evaluation is based on the credit rating of the issuer, the extent to which fair value is below amortized cost considering rate changes since acquisition, and the price at which a security is trading relative to other similarly rated securities. If analysis of these qualitative factors results in the security needing to be impaired, a credit impairment is recognized as an allowance for credit losses against the carrying value of the investment with the change in the credit allowance recognized in net realized investment gains (losses) to the extent the amortized cost of the security exceeds the net present value of its projected future cash flows (the "net present value"). 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 available-for-sale debt security at the date of acquisition or at the current yield in the case of beneficial interest. The allowance is limited by the amount that the fair value is less than the amortized cost. If the estimated fair value is greater than the present value of projected future cash flows expected to be collected, this portion of the decline in value related to other-than-credit factors is recorded in OCI as an unrealized loss.

Net investment income

Net 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. Dividends are recorded on the ex-dividend date. 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 the Company acts 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. The Company does not hold an allowance for credit losses on accrued investment income. Instead, accrued investment income is written off when deemed uncollectible, which is when it is 90 days past due. Accrued investment income is written off through net investment income in the statements of comprehensive income.

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 fixed and 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. The Company presents capitalized acquisition costs net of related amortization separately in the balance sheets and the amortization of the capitalized acquisition costs as a separate component of expenses in the statements of comprehensive income in accordance with authoritative guidance.

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 sheets and the amortization of the capitalized sales inducements as a separate component of benefits in the statements 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 COR asset was recorded to defer the initial loss. The COR asset is primarily due to the ceding allowance the Company paid 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 on reinsurance assumed reported in the balance sheets 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. Interest crediting rates ranged primarily from 1.00% to 5.55% in 2023 and 0.25% to 5.55% in 2022. For certain contracts, these 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 on reinsurance assumed 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 made an election under Internal Revenue Code 953(d) to be treated as a domestic corporation for U.S. tax purposes and files a separate 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 ("DTAs") are reduced by a valuation allowance if it is more likely than not that all or some portion of the DTAs 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 other-than-temporary impairment ("OTTI") losses. Components of OCI are presented net of intangibles and taxes.

2. EFFECTS OF NEW AUTHORITATIVE GUIDANCE

Recently adopted authoritative guidance

Measurement of Credit Losses on Financial Instruments

In June 2016, the Financial Accounting Standards Board ("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 OTTI 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 Accounting Standards Updates ("ASU"), was effective January 1, 2023. The guidance was applied prospectively, as the only instruments held directly by the Company in scope of the new guidance are available-for-sale debt securities. The guidance did not have a material impact on the financial statements.

New and Proposed Tax Laws

On August 16, 2022, the U.S. enacted the Inflation Reduction Act of 2022 (the "Act"). The Act contained various tax-related provisions, including the establishment of a new 15 percent corporate alternative minimum tax ("CAMT") on adjusted financial statement income for certain large corporations, effective for the years beginning on or after January 1, 2023. Applicable Corporations are required to compute federal income tax liability under two systems, the U.S. regular corporate tax and the CAMT. Although the CAMT may apply in any given year when tentative minimum tax then exceeds the regular tax liability, as a prepayment the CAMT generates a corresponding alternative minimum tax credit ("AMTC"). The AMTC is accounted for as a DTA with an indefinite carryover life, recoverable in years when the regular tax liability exceeds tentative minimum tax. Uncertainty remains regarding the continued implementation of and potential adjustments to the Act. The Company expects to be an Applicable Corporation subject to the new CAMT for 2023. However, the Company does not expect the CAMT will have a material impact on either the effective tax rate or cash tax liabilities.

The tax accounting consequences of a change in tax law are required to be recognized in the period legislation is enacted. Generally, a company is also required to consider the impact of new tax law on realizability of its DTAs, including determination of whether a change to their valuation allowance amount is necessary. The Company made an accounting policy election to disregard CAMT status when evaluating DTAs under the regular corporate tax system associated with the Act.

The Organization for Economic Cooperation and Development ("OECD") issued new guidelines, known as "Pillar Two," to implement a 15% global corporate minimum tax to address gaps in current tax laws and ensure that large multinational enterprises pay a minimum level of tax in the countries in which they operate. Pillar Two has been agreed upon in principle by over 140 countries. Although the model rules provide a framework for applying the minimum tax, countries may enact Pillar Two slightly differently than the model rules and on different timelines and may adjust domestic tax incentives in response to Pillar Two. While we still are evaluating the potential consequences of Pillar Two, we do not expect it will have a material impact on either our effective tax rate or cash tax liabilities.

On December 27, 2023, Bermuda enacted legislation implementing a Corporate Income Tax ("CIT") system with a statutory rate of 15%. The CIT applies to certain Bermuda tax resident entities and Bermuda permanent establishments that are constituent entities of a multinational group with consolidated annual revenue of at least €750 million in at least two of the four preceding fiscal years, subject to certain exemptions. The CIT will apply to the Company and is generally effective for fiscal years beginning on or after January 1, 2025. The new CIT rules provide significant flexibility and allow taxpayers to make various elections, including choosing among various acceptable accounting standards and establishing an opening loss carryforward. The rules also provide relief from double taxation, including a foreign tax credit ("FTC") based on accrued current and deferred taxes in a foreign jurisdiction. For a Bermuda entity for which a U.S. federal section 953(d) election is in place, a FTC is available for U.S. federal tax. The Company expects to generate excess future FTCs in Bermuda for U.S. taxes incurred and, therefore, does not expect the CIT will have a material impact, if any.

Recently issued authoritative guidance

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 OCI. 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 OCI. 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. as a result of a one year deferral of the effective date by the FASB in 2020. 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.

Income tax and other disclosures

On December 14, 2023, the FASB issued an ASU to address improvements to income tax disclosures. The standard requires disaggregated information about a company's effective tax rate reconciliation, as well as information on income taxes paid. The standard is effective for non-public companies for annual periods beginning after December 15, 2025, with early adoption permitted. The standard will be applied on a prospective basis with the option to apply the standard retrospectively. The Company is assessing the impact of this new guidance on its financial statements.

In October 2023, the FASB issued an ASU that adds disclosure requirements to the codification that currently exists only in SEC guidance. The guidance added to the codification will become effective for non-public business entities two years after it is removed from the SEC guidance. The Company is assessing the impact of the new guidance on its financial statements.

3. INVESTMENTS AND NET INVESTMENT INCOME

Fixed maturity securities

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

	Year Ended December 31, 2023				
(In thousands)	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses[1]	Fair Value
U.S. government and agencies	$ 16,944	$ —	$ —	$ 2,836	$ 14,108
Municipal securities	14,491	—	—	1,503	12,988
Corporate securities	79,350	35	—	8,303	71,012
Residential mortgage-backed securities	24,328	—	—	4,088	20,240
Commercial mortgage-backed securities	3,917	—	—	820	3,097
Asset-backed securities	26,796	5	—	2,483	24,308
Total available-for-sale	$ 165,826	$ 40	$ —	$ 20,033	$ 145,753

[1] Gross unrealized losses are net of allowance for credit losses.

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:

	Year Ended December 31, 2022			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agencies	$ 18,849	$ —	$ 3,655	$ 15,194
Municipal securities	16,114	10	2,041	14,083
Corporate securities	119,928	—	13,398	106,530
Residential mortgage-backed securities	24,628	—	4,397	20,231
Commercial mortgage-backed securities	5,955	—	1,128	4,827
Asset-backed securities	27,090	—	3,546	23,544
Total available-for-sale	$ 212,564	$ 10	$ 28,165	$ 184,409

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, 2023	
(In thousands)	**Amortized Cost**	**Fair Value**
Due after one year through five years	$ 10,659	$ 10,280
Due after five years through ten years	48,977	45,005
Due after ten years	51,149	42,824
Securities not due at a single maturity date	55,041	47,644
Total fixed maturity securities	$ 165,826	$ 145,753

Gross unrealized losses

The Company's gross unrealized losses and fair value on its available-for-sale fixed maturity securities, for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	December 31, 2023					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agencies	$ —	$ —	$ 14,108	$ (2,836)	$ 14,108	$ (2,836)
Municipal securities	775	(21)	12,213	(1,482)	12,988	(1,503)
Corporate securities	5,976	(7)	60,436	(6,873)	66,412	(6,880)
Residential mortgage-backed securities	—	—	19,924	(3,923)	19,924	(3,923)
Commercial mortgage-backed securities	—	—	3,097	(820)	3,097	(820)
Asset-backed securities	174	(12)	23,024	(2,378)	23,198	(2,390)
Total available-for-sale	$ 6,925	$ (40)	$ 132,802	$ (18,312)	$ 139,727	$ (18,352)

The Company's gross unrealized losses and fair value on its available-for-sale fixed maturity securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	December 31, 2022					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agencies	$ 15,194	$ (3,655)	$ —	$ —	$ 15,194	$ (3,655)
Municipal securities	13,457	(2,041)	—	—	13,457	(2,041)
Corporate securities	106,530	(13,398)	—	—	106,530	(13,398)
Residential mortgage-backed securities	20,231	(4,397)	—	—	20,231	(4,397)
Commercial mortgage-backed securities	4,827	(1,128)	—	—	4,827	(1,128)
Asset-backed securities	23,544	(3,546)	—	—	23,544	(3,546)
Total available-for-sale	$ 183,783	$ (28,165)	$ —	$ —	$ 183,783	$ (28,165)

The following table provides a rollforward of the allowance for credit loss:

	December 31, 2023				
(In thousands)	Corporate Securities	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Asset-Backed Securities	Total Available-For-Sale
Beginning balance	$ —	$ —	$ —	$ —	$ —
Additions for credit losses not previously recorded	35	—	—	5	40
Ending balance	$ 35	$ —	$ —	$ 5	$ 40

The above table includes 8 positions of 8 issuers as of December 31, 2023.

At December 31, 2023, the Company held 172 positions in fixed maturity securities. The Company held 172 positions of 101 issuers as of December 31, 2023 that had unrealized losses. At December 31, 2023, 98% of the unrealized losses on fixed maturity securities were securities rated investment grade. Investment grade securities are defined as those securities rated with a National Association of Insurance Commissioners ("NAIC") designation category of 1 or 2 (inclusive of all designation modifiers). At December 31, 2023, 2% of the unrealized losses on fixed maturity securities were on securities rated below investment grade. At December 31, 2023, fixed maturity securities in an unrealized loss position had fair value equal to approximately 88% of amortized cost.

Net investment income and investment gains (losses)

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

	Year Ended December 31,	
(In thousands)	2023	2022
Gross investment income		
Fixed maturity securities	$ 7,260	$ 6,894
Equity securities	195	163
Funds withheld at interest	406,930	156,751
Cash	298	60
Total gross investment income	414,683	163,868
Less: Investment expenses	13,152	6,537
Net investment income	$ 401,531	$ 157,331

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 net realized investment gains and (losses) reflected in the statements of comprehensive income are summarized as follows:

	Year Ended December 31,	
(In thousands)	**2023**	**2022**
Fixed maturity securities, available for sale	$ (1,590)	$ (15,117)
Equity securities	(179)	(323)
Funds withheld at interest	(59,083)	(63,620)
Provision for credit losses	(40)	—
Net realized investment gains (losses)	$ (60,892)	$ (79,060)

Proceeds from the sale of securities and the gross realized gains and (losses) on these sales (excluding allowance for credit losses, maturities, calls, exchanges and prepayments) were as follows:

	Year Ended December 31,			
	2023		**2022**	
(In thousands)	**Fixed Maturity Securities**	**Equity Securities**	**Fixed Maturity Securities**	**Equity Securities**
Proceeds from sales	$ 43,506	2,626	$ 109,596	$ —
Gross realized gains	27	—	47	—
Gross realized losses	(1,575)	(374)	(15,164)	—

Credit risk concentration

The Company generally strives to maintain a diversified invested assets portfolio. Credit risk concentrations to any single issuer or groups of issuers with similar credit profiles are closely monitored. Other than investments in U.S. government or U.S. government agencies, the Company had no significant concentration of credit risk at December 31, 2023.

4. FUNDS WITHHELD AT INTEREST

Funds withheld at interest represents the receivable for assets supporting coinsurance. These assets are held in trusts or custodial accounts that are legally segregated from the ceding companies' general accounts. In the event of a ceding company's insolvency, the Company would need to assert a claim on the assets supporting the reserve liabilities. However, the Company has the ability to offset amounts owed to the ceding company, which reduces the 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 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 the Company. The notional hedge portfolio portion of the funds withheld treaties is a derivative used to hedge index credits on assumed policies. 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,	
(In thousands)	**2023**	**2022**
Cash	$ 26,748	$ 231,802
U.S. government and agencies	494,999	489,311
Municipal securities	498,954	369,684
Corporate securities	8,141,568	5,460,155
Residential mortgage-backed securities	630,177	398,781
Commercial mortgage-backed securities	263,416	258,432
Asset-backed securities	2,042,674	1,486,479
Equity securities	87,148	146,277
Short-term securities	19,997	—
Commercial mortgage loans	326,370	154,937
Swaps and swap collateral	5,088	(714)
Interest due and accrued	130,400	97,459
Repurchase agreements	(453,751)	(457,932)
Notional hedge portfolio	393,533	110,097
Receivable from (payable to) broker	(24,852)	(227,371)
Receivable from (payable to) cedants	(39,635)	(8,222)
Suspense	(12)	(11)
Funds withheld at interest	$ 12,542,822	$ 8,509,164

5. DERIVATIVES AND DERIVATIVE INSTRUMENTS

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

	December 31,	
	2023	**2022**
(In thousands)	**Fair Value**	**Fair Value**
Derivatives not designated as hedges		
Embedded derivatives		
Assets:		
Funds withheld at interest	(343,186)	(873,896)
Liabilities:		
Investment-type insurance contracts embedded derivatives	1,354,733	931,553

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 statements 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 sheets in funds withheld at interest. The net change in the reported value of the embedded derivatives is reported in net gains (losses) on derivatives and derivative instruments in the statements of comprehensive income.

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

The impacts of derivatives and derivative instruments not designated as hedging instruments are reflected in net gains (losses) on derivatives and derivative instruments in the statements of comprehensive income.

6. DAC, DSI and COR

The components of DAC are as follows:

	Year Ended December 31,	
(In thousands)	**2023**	**2022**
Balance at beginning of year	$ 724,596	$ 86,076
Commissions deferred on reinsurance assumed	566,529	638,520
Amortization	(104,530)	—
Balance at end of year	$ 1,186,595	$ 724,596

The components of DSI are as follows:

	Year Ended December 31,	
(In thousands)	**2023**	**2022**
Balance at beginning of year	$ 80,711	$ 6,853
Sales inducement costs deferred on reinsurance assumed	95,814	73,858
Amortization	(14,843)	—
Balance at end of year	$ 161,682	$ 80,711

The components of COR are as follows:

	Year Ended December 31,	
(In thousands)	**2023**	**2022**
Balance at beginning of year	$ 561,446	$ 561,446
Addition due to new treaties	—	—
Amortization	—	—
Balance at end of year	$ 561,446	$ 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 certain in-force fixed indexed annuity policies with guaranteed benefits issued by MNL prior to September 30, 2021, 80% quota share of certain new fixed indexed annuity policies including attached riders sold by MNL and NAC on or after October 1, 2021 and 80% quota share of all multi-year guaranteed annuities including attached riders sold by MNL and NAC from July 1, 2022 to December 31, 2022. 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. Effective October 1, 2023, for new policies issued on or after October 1, 2023, the 80% quota share is structured as a combination of funds withheld and coinsurance. The Company reports the funds withheld assets with statutory book values of $12.9 billion and $9.5 billion in funds withheld at interest in the balance sheets for 2023 and 2022, respectively. 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 sheets.

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

	December 31,	
(In thousands)	**2023**	**2022**
Charges on investment-type products-reinsurance assumed	$ 62,901	$ 37,330
Benefits incurred-reinsurance assumed	$ 112,542	$ (180,839)

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated OCI are as follows:

(In thousands)	Net Unrealized Gain (Loss) on Available-For-Sale Securities	Deferred Income Taxes	Total
Balance at December 31, 2021	$ —	$ —	$ —
Other comprehensive income (loss) before reclassifications	(28,155)	5,912	(22,243)
Balance at December 31, 2022	$ (28,155)	$ 5,912	$ (22,243)
Other comprehensive income (loss) before reclassifications	8,123	(1,706)	6,417
Balance at December 31, 2023	$ (20,032)	$ 4,206	$ (15,826)

There were no reclassification adjustments in accumulated OCI in the statements of comprehensive income for 2023 or 2022.

9. INCOME TAXES

The significant components of income tax expense are as follows:

	December 31,	
(In thousands)	2023	2022
Current	$ —	$ 30
Deferred	92,064	(116,613)
Total income tax provision (benefit)	$ 92,064	$ (116,583)

Total income tax expense attributable to income before taxes differed from the amount that results from applying the U.S. federal statutory rate of 21%. The significant differences in 2023 were the valuation allowance against the DTA for capital loss carryforwards and the DTA established for the opening net operating loss (“NOL”) carryforward under the newly enacted Bermuda CIT, offset by a valuation allowance, as discussed in more detail below. The significant difference in 2022 was due to the valuation allowance.

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

	December 31,	
(In thousands)	**2023**	**2022**
Deferred income tax assets		
Policy liabilities and reserves	$ 310,277	$ 387,612
US Capital and net operating loss carry forwards	145,889	46,162
Bermuda operating loss carry forward	182,340	—
Investments	4,182	5,954
Other, net	20	18
Total gross deferred income tax assets	$ 642,708	$ 439,746
Less valuation allowance	(186,001)	(3,293)
Total deferred income tax assets	$ 456,707	$ 436,453
Deferred income tax liabilities		
Deferred policy acquisition costs, cost of reinsurance and deferred sales inducements	(401,042)	(287,018)
Total deferred income tax liabilities	(401,042)	(287,018)
Net deferred income tax asset (liability)	$ 55,665	$ 149,435

If the Company determines that any of its DTAs will not result in future tax benefits, a valuation allowance must be established for the portion of these assets that more-likely-than-not will not be realized. With the enactment of the Bermuda CIT in 2023, the Company is now a dual resident taxpayer and will establish separate deferred tax balances for Bermuda and the US jurisdictions and consider the need for a valuation allowance in each jurisdiction based upon applicable tax laws.

As of December 31, 2023 and 2022, the Company has established valuation allowances of $186.0 million and $3.3 million, respectively. The valuation allowance at December 31, 2023 includes $182.3 million for the DTA related to the $1.216 million NOL carryforward for Bermuda tax purposes. While this NOL does not expire, the Company expects to generate future FTCs which would displace the DTA related to the NOL and thus no net benefit will be realized. The remaining valuation allowances in both years were established against certain capital DTAs including a $3.7 million valuation allowance against the DTA attributable to the Company's US capital loss carryforward of $17.3 million at December 31, 2023, which will expire on December 31, 2027 and 2028 if not utilized. Adjustments to the valuation allowance will be made if there is a change in management's assessment of the amount of the DTAs that are more-likely-than-not 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 believes no additional valuation allowance is necessary.

The Company has a DTA of $142.3 million related to its $677.4 million NOL carryforward for US tax purposes. The NOL may be carried forward indefinitely.

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, 2023 and 2022. The Company is not currently under examination, but all tax years are open as the Company was formed in 2021.

10. 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 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, 2023			
(In thousands)	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale securities				
Fixed maturity securities:				
U.S. government and agencies	—	14,108	—	14,108
Municipal securities	—	12,988	—	12,988
Corporate securities	—	70,631	381	71,012
Residential mortgage-backed securities	—	20,240	—	20,240
Commercial mortgage-backed securities	—	3,097	—	3,097
Asset-backed securities	—	23,788	520	24,308
Total available-for-sale securities	$ —	$ 144,852	$ 901	$ 145,753
Equity securities				
Financial services	—	1,792	—	1,792
Total equity securities	$ —	$ 1,792	$ —	$ 1,792
Funds withheld at interest				
Annuity funds withheld	—	—	(343,186)	(343,186)
Total financial assets	$ —	$ 146,644	$ (342,285)	$ (195,641)
Financial liabilities:				
Policyholder account balances				
Annuity embedded derivatives assumed	$ —	$ —	$ 1,354,733	$ 1,354,733
Total financial liabilities	$ —	$ —	$ 1,354,733	$ 1,354,733

(In thousands)	December 31, 2022 Level 1	Level 2	Level 3	Total
Financial assets:				
Fixed maturity securities:				
U.S. government and agencies	$ —	$ 15,194	$ —	$ 15,194
Municipal securities	—	14,083	—	14,083
Corporate securities	—	106,126	404	106,530
Residential mortgage-backed securities	—	20,231	—	20,231
Commercial mortgage-backed securities	—	4,827	—	4,827
Asset-backed securities	—	23,186	358	23,544
Total available-for-sale securities	—	183,647	762	184,409
Equity securities				
Financial services	—	4,598	—	4,598
Total equity securities	—	4,598	—	4,598
Funds withheld at interest				
Annuity funds withheld	—	—	(873,896)	(873,896)
Total financial assets	$ —	$ 188,245	$ (873,134)	$ (684,889)
Financial liabilities:				
Policyholder account balances				
Annuity embedded derivatives assumed	$ —	$ —	$ 931,553	$ 931,553
Total financial liabilities	$ —	$ —	$ 931,553	$ 931,553

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:

(In thousands)	Year Ended December 31, 2023 Purchases	Issuances	Transfers in and/or out of Level 3 (A)
Financial assets:			
Available for sale securities			
Fixed maturity securities:			
Asset-backed securities	186	—	—
Total fixed maturity securities	186	—	—
Total financial assets	$ 186	$ —	$ —
Financial liabilities:			
Policyholder account balances			
Annuity embedded derivatives assumed (B)	—	354,365	—
Total financial liabilities	$ —	$ 354,365	$ —

	Year Ended December 31, 2022		
(In thousands)	**Purchases**	**Issuances**	**Transfers in and/or out of Level 3 [(A)]**
Financial assets:			
Available for sale securities			
Fixed maturity securities:			
Corporate securities	$ 500	$ —	$ —
Asset-backed securities	371	—	—
Total fixed maturity securities	871	—	—
Total financial assets	$ 871	$ —	$ —
Financial liabilities:			
Policyholder account balances			
Annuity embedded derivatives assumed [(B)]	—	503,558	—
Total financial liabilities	$ —	$ 503,558	$ —

(A) There were no transfers in and/or out of Level 3 in the years ended December 31, 2023 or 2022.

(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 statements of comprehensive income.

11. 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 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 three sets of financial statements:

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 GAAP financial statements. These financial statements form the basis for the preparation of both the Statutory Financial Statements (“SFS”) and the EBS.

2. Statutory Financial Statements - 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 ("MSM") 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, 2023 and December 31, 2022, 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 years ended December 31, 2023 and 2022:

	Year Ended December 31, 2023	
(In thousands)	**GAAP**	**SFS**
Actual Capital and Surplus	882,202	1,232,134
Required Capital and Surplus [A]	N/A	224,809
Net Income (Loss)	344,650	28,486

	Year Ended December 31, 2022	
(In thousands)	**GAAP**	**SFS**
Actual Capital and Surplus	211,135	883,648
Required Capital and Surplus [A]	N/A	167,222
Net Income (Loss)	(454,164)	68,445

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

Under the EBS framework, SFS are generally equivalent to GAAP financial statements, with the exception of permitted practices granted by the BMA. The Company has permission in the SFS 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 the Company. The following represents the effect of the permitted practices to the SFS:

	December 31,	
(In thousands)	**2023**	**2022**
Increase (decrease) to capital and surplus due to permitted practices	349,932	672,513
Increase (decrease) to statutory net income due to permitted practices	(316,164)	522,609

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, 2023 and 2022 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 MSM 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, 2023, the Company is not permitted to remit a dividend to its parent without prior approval from the BMA.

12. 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 in-force fixed indexed annuity policies with guaranteed benefits issued by MNL prior to September 30, 2021, 80% quota share of certain new fixed indexed annuity policies including attached riders sold by MNL and NAC on or after October 1, 2021, and 80% quota share of all multi-year guaranteed annuities including attached riders sold by MNL and NAC from July 1, 2022 to December 31, 2022. The treaties were effective October 31, 2021 for the in-force business and effective October 1, 2021 for new business. Effective October 1, 2023, for new policies issued on or after October 1, 2023, the 80% quota share is structured as a combination of funds withheld and coinsurance. With the exception of some minor 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.

The Company also pays fees to MNL under an administrative services agreement that covers certain investment, accounting, legal and management services. The Company incurred $2.3 million and $1.5 million in 2023 and 2022, respectively for these services.

The Company entered an agreement effective July 31, 2022 to receive investment management services from SFG Asset Management, LLC, an affiliate registered investment advisor which was established in 2022. The Company incurred $46 thousand and $16 thousand in 2023 and 2022, respectively for these investment management services. The fee is calculated based on the average fair value of invested assets under management multiplied by a contractual rate.

SEI has a noncontrolling interest in Guggenheim Capital, LLC ("Guggenheim"), an investment and advisory firm operating through several business units including primarily Guggenheim Investments, an investment management firm and Guggenheim Securities, an investment banking and capital markets business.

GPIM, an indirect subsidiary of Guggenheim within the Guggenheim Investments business unit, provides investment management services for the Company. GPIM manages 100% of the Company's investment portfolio as of December 31, 2023. In 2022, the fee structure changed from being calculated based on the average fair value of invested assets under management multiplied by a contractual rate, to a fixed fee structure. Fees paid to GPIM for investment management services were $80 thousand and $170 thousand in 2023 and 2022, respectively.

13. 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 an unused letter of credit of $0 as of December 31, 2023. The letters of credit were issued for the Company's reinsurance program and expire on November 30, 2024.

14. SUBSEQUENT EVENTS

The Company evaluated subsequent events through April 22, 2024 which is the date the financial statements were available to be issued.

On March 28, 2024, the Company received a $80 million capital contribution from its parent, SFG. This capital contribution was made to provide the necessary capital to support the business ceded from MNL and NAC during 2024.