

Consolidated Financial Statements and Report
of Independent Certified Public Accountants

Oceanview Reinsurance Ltd.

(A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.)

For the Years Ended December 31, 2023 and
2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Oceanview Reinsurance Ltd.

Opinion

We have audited the consolidated financial statements of Oceanview Reinsurance Ltd. (a Bermuda limited corporation) and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated 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 audits of the consolidated financial statements 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 consolidated 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 consolidated 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 consolidated 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.

Grant Thornton LLP

Hartford, Connecticut
April 30, 2024

Oceanview Reinsurance Ltd.
(A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.)
CONSOLIDATED BALANCE SHEETS
December 31,
(U.S. Dollars in Thousands, Except Share and Per Share Data)

	2023	2022
Assets:		
Funds withheld asset, at fair value	\$ 2,597,647	\$ 2,445,639
Cash and cash equivalents	111,979	27,377
Restricted cash	520	198
Investments in securities, trading	12,710	-
Interest receivable	2,737	-
Accounts receivable	1,256	2,518
Deferred tax asset, net	-	4,109
Derivative assets, at fair value	-	243
Income tax receivable	2,055	-
Other	65	50
Total assets	\$ 2,728,969	\$ 2,480,134
Liabilities:		
Insurance reserves, at fair value	\$ 2,410,727	\$ 2,243,588
Accounts payable and accrued expenses	13,040	35,502
Deferred tax liability, net	2,663	-
Derivative liability, at fair value	225	-
Due to related parties	107	35
Affiliate note payable	-	21,000
Ceding commission payable	-	3,997
Total liabilities	2,426,762	2,304,122
Stockholder's Equity:		
Common stock, par value \$1.00 per share, 250,000 shares authorized, issued, and outstanding	250	250
Additional paid in capital	156,762	101,250
Retained earnings	129,627	69,963
Non-controlling interest in subsidiary	15,568	4,549
Total stockholder's equity	302,207	176,012
Total liabilities and stockholder's equity	\$ 2,728,969	\$ 2,480,134

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

Oceanview Reinsurance Ltd.
(A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.)

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31,
(U.S. Dollars in Thousands)

	2023	2022
Revenues:		
Income from reinsurance including investment result on funds withheld asset	\$ 150,947	\$ 117,509
General account net investment gain (loss)	2,976	(1,236)
General account net derivative loss	(89)	(4,241)
Total revenues	153,834	112,032
Expenses:		
Interest sensitive contract benefits	63,308	46,285
Commissions on reinsurance, net of DAC	9,427	17,826
General and administrative	5,194	3,984
Professional fees	2,404	1,046
Interest expense	696	289
Total expenses	81,029	69,430
Income before income taxes	72,805	42,602
Income tax (benefit) provision	6,772	(14)
Net income	\$ 66,033	\$ 42,616
Net income (loss) attributable to non-controlling interest in subsidiary	6,369	(13)
Net income attributable to Oceanview Reinsurance Ltd.	\$ 59,664	\$ 42,629

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

Oceanview Reinsurance Ltd.
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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
For the years ended December 31,
(U.S. Dollars in Thousands, Except Share and Per Share Data)

	Number of Shares	Common Stock, \$1.00 par value	Additional Paid-in Capital	Retained Earnings	Non-controlling interest in subsidiary	Total
Balance at December 31, 2021	250,000	\$ 250	\$ 80,250	\$ 27,334	\$ -	\$ 107,834
Net income (loss)	-	-	-	42,629	(13)	42,616
Capital contributions	-	-	21,000	-	4,562	25,562
Balance at December 31, 2022	250,000	\$ 250	\$ 101,250	\$ 69,963	\$ 4,549	\$ 176,012
Net income	-	-	-	59,664	6,369	66,033
Capital contributions	-	-	55,512	-	4,650	60,162
Balance at December 31, 2023	250,000	\$ 250	\$ 156,762	\$ 129,627	\$ 15,568	\$ 302,207

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

Oceanview Reinsurance Ltd.
(A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,
(U.S. Dollars in Thousands)

	2023	2022
Cash flows from operating activities:		
Net income	\$ 66,033	\$ 42,616
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net investment gain	(448)	-
Deferred taxes, net	6,772	(4,109)
Net derivative loss	89	4,241
Income from reinsurance, change in fair value on funds withheld	46,470	(28,409)
Deferred acquisition costs	-	16,714
Net change in:		
Payments for ceding commission and brokerage fees on funds withheld contracts	(35,336)	(34,447)
Accounts receivable	1,262	362
Other assets	(16)	-
Deferred profit liability	-	(26,654)
Interest receivable	(2,736)	(50)
Accounts payable and accrued expenses	(21,950)	35,033
Due to related parties	72	(282)
Income tax receivable	(2,055)	-
Net cash provided by operating activities	58,157	5,015
Cash flows from investing activities:		
Purchases of trading securities	(12,262)	-
Net payments for derivatives	379	(5,058)
Net cash used in investing activities	(11,883)	(5,058)
Cash flows from financing activities:		
Capital contribution	34,000	-
Capital contribution from non-controlling interest	4,650	4,563
Net cash provided by financing activities	38,650	4,563
Net increase in cash, cash equivalents and restricted cash	84,924	4,520
Cash, cash equivalents and restricted cash, beginning of year	27,575	23,055
Cash, cash equivalents and restricted cash, end of year	\$ 112,499	\$ 27,575
Supplemental disclosure of cash flow information:		
Non-cash conversion of affiliate payable to equity	\$ 21,512	\$ 21,000
Deposits on investment-type contracts through reinsurance agreement	\$ 306,364	\$ 679,238

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

Oceanview Reinsurance Ltd.
(A Wholly Owned Subsidiary of Oceanview Holdings, Ltd.) NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022

NOTE A - ORGANIZATION

Oceanview Reinsurance Ltd. (the "Company") is an exempted company incorporated in Bermuda on April 20, 2018, and is a wholly owned subsidiary of Oceanview Holdings, Ltd. ("OVH"), a Bermuda exempted company incorporated on February 22, 2018. The parent of OVH is Bayview Opportunity V Oceanview L.P. (the "Fund"), a Bermuda limited partnership. The general partner of the Fund is a wholly-owned subsidiary of Bayview Asset Management, LLC ("Bayview"). The Company was formed for the purpose of providing traditional reinsurance, which includes individual and group life and annuity reinsurance. On January 17, 2019, the Company obtained its certificate of registration as a Class E insurer under the Insurance Act 1978 from the Bermuda Monetary Authority ("BMA").

The Company has a subsidiary company, Oceanview Bermuda Reinsurance Ltd. ("OBR"), an exempted company which was incorporated in Bermuda on October 21, 2021 and began operations on December 28, 2022. OBR is a 75% directly held subsidiary of the Company and 25% owned by Oceanview U.S. Holdings Parent, LLC. ("OVUSHP"), a wholly owned subsidiary of OVH.

Oceanview Asset Management, LLC ("OAM" or the "Management Company" and a wholly-owned subsidiary of Bayview), a Delaware limited liability company, provides investment advice and directs the investments of the Company ("Portfolio Assets"). See Note H Related Party Transactions.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies adhered to in the preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, OBR, in which it owns a 75% interest. The remaining 25% ownership of OBR is held by OVUSHP. For the purposes of these financial statements, OBR's income and equity attributable to OVUSHP has been shown as income and equity attributable to "non-controlling interest", respectively.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include the valuation of funds withheld asset, derivatives, and insurance reserves. Actual results could differ from the estimates.

Cash and Cash Equivalents

The Company considers highly liquid securities and other investments with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents. At December 31, 2023 and 2022, substantially all cash balances were at major financial institutions earning interest. At December 31, 2023 and 2022, certain cash amounts were in bank accounts insured by the FDIC up to \$250,000. The Company is exposed to losses in excess of the FDIC insured amount.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
For the years ended December 31, 2023 and 2022

Restricted Cash

Restricted cash includes deposits and collateral under various derivative and reinsurance agreements. At December 31, 2023 and 2022, restricted cash is held with various counterparties in interest bearing accounts.

The following table provides a reconciliation of cash and restricted cash reported within the consolidated balance sheets that sum to the total cash amounts shown in the consolidated statements of cash flows as of December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 111,979	\$ 27,377
Restricted cash	520	198
Total cash and restricted cash	\$ 112,499	\$ 27,575

Reinsurance

The Company assumes insurance and investment contracts under coinsurance and funds withheld coinsurance agreements. The Company follows reinsurance accounting for transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To meet risk transfer requirements, a reinsurance agreement must transfer insurance risk arising from uncertainties about both underwriting and timing risks. Assets and liabilities assumed under coinsurance and funds withheld coinsurance are presented gross on the consolidated balance sheets.

Funds Withheld Reinsurance Contracts at Fair Value

In accordance with the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) ASC 825, *Financial Instruments*, the Company has elected to carry assets and liabilities associated with reinsurance contracts at fair value. This election is made on a contract-by-contract basis. For those contracts for which this election is made, assets and liabilities associated with the reinsurance contract are carried at fair value with the change in the fair value of the assets and the liabilities recorded in income from reinsurance on the statements of operations.

The Company’s funds withheld asset consists of arrangements with an unaffiliated insurer and an affiliated insurer (refer to Note C Investments and Note H Related Party Transactions). Under these arrangements, the Company assumed via reinsurance certain insurance reserves with premiums withheld by the cedants under provisions of the respective reinsurance agreements. Although the assets in funds withheld are legally owned by the cedants, the assets are separated from the general accounts of the cedants and all economic rights and obligations of the assets accrue to the Company. The withheld premium is invested in accordance with the respective reinsurance treaties and the Company’s investment guidelines. The Company carries the funds withheld asset at fair value based on the fair value of the underlying assets.

The fair value related to reinsurance liabilities is determined using the income approach allowed under ASC 820. The income approach uses present value techniques to convert future amounts (premiums, policyholder benefits, expense allowances, commissions, and other contractual inflows and outflows) to a single present amount. The objective of the measurement is to arrive at the value of insurance reserves indicated by market expectations on the effective date of the financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
For the years ended December 31, 2023 and 2022

The liability cashflows associated with the insurance reserves are generated using best-estimate assumptions for mortality, surrender, partial withdrawals, and expenses. In these cashflows, policies are terminated through surrenders and maturities, where surrenders represent the voluntary terminations of policies by policyholders and maturities are determined by policy contract terms. Surrender assumptions are based upon cedant experience adjusted for expected future economic conditions.

The Company uses market yields on the underlying assets plus risk margins to develop discount rates for the present value technique. The discount rates are composed of:

- Risk-free rate, plus
- Non-performance risk spread, less
- Risk margin to reflect uncertainty

The non-performance risk spread is associated with the risk that the liability obligations will not be fulfilled. This is derived from the spread earned on the underlying assets and reflects the Company's own credit risk.

The risk margin is reflective of the uncertainty of risks associated with the cashflows and the non-performance risk spread.

Securities, at Fair Value

Investments in securities are classified as trading at the time of purchase and subsequently carried at fair value, with changes to fair value included in investment related gains (losses) on the consolidated statement of operations. Fair value hierarchy and valuation methodologies are discussed in Note F – Fair Value Measurement. Although the securities are classified as trading, the trading activity related to these investments is primarily focused on asset and liability matching activities and is not intended to be an income strategy based on active trading. As such, the activity related to these investments on the consolidated statements of cash flows is classified as investing activities.

The Company regularly evaluates all its investments based on existing economic conditions, credit loss experience, and other specific developments. If there is a decline in an investment's net realizable value that is other-than-temporary, it is considered as a realized loss and the cost basis in the investment is reduced to its estimated fair value.

Income Taxes

The Company, as a Bermuda company, is not subject to U.S. federal or state income tax as a separate entity. Under the laws of Bermuda, there is no income, estate, sales or other Bermudian taxes payable by the Company. On December 27, 2023, the government of Bermuda enacted the Corporate Income Tax Act 2023 ("the Act") which introduces a 15% corporate income tax on Bermuda businesses that are part of an In Scope Multinational Enterprise Group ("MNE Group"), effective for fiscal years beginning on or after January 1, 2025. Refer to Note G Federal Income Taxes for further details.

The Company's subsidiary, OBR, has elected to be taxed as a U.S. taxpayer under section 953(d) of the Internal Revenue Code ("IRC"). OBR accounts for U.S. federal income tax in accordance with ASC 740, *Income Taxes*, which requires that deferred income tax balances be recognized based on the differences between OBR's financial statement and income tax bases of assets and liabilities using the enacted income tax rates. OBR recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
For the years ended December 31, 2023 and 2022

been included in its financial statements. Deferred income taxes arise from taxable or deductible temporary differences between OBR's financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

OBR accounts for uncertain tax positions in accordance with the provisions of ASC 740. The guidance provides an interpretation of how uncertain tax positions should be recognized, measured, presented, and disclosed in financial statements. As required, OBR recognizes the financial statement benefit of a tax position only after determining that the U.S. tax authority, The Internal Revenue Service ("IRS"), would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in OBR's financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the IRS. At December 31, 2023 and 2022, OBR did not record an accrual for any material uncertain tax positions.

OBR's 2022 federal tax return is open for examination by the IRS. Tax regulations are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. OBR's policy is to classify interest and penalties related to income taxes (if any) as other operating expenses within its statements of operations.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*. This new guidance replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The guidance also requires enhanced disclosures. This guidance was effective for the Company as of January 1, 2023. The Company adopted this new accounting standard and the adoption had no material impact on the consolidated financial statements.

NOTE C - INVESTMENTS

Securities, at Fair Value

The amortized cost, gross unrealized gains, gross unrealized losses and fair value of securities at December 31, 2023 was (U.S. dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading securities	\$ 12,156	\$ 554	\$ -	\$ 12,710
Total	\$ 12,156	\$ 554	\$ -	\$ 12,710

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
For the years ended December 31, 2023 and 2022

The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of securities by type at December 31, 2023 was (U.S. dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government and Corporate	\$ 6,138	\$ 436	\$ -	\$ 6,574
Structured securities	3,641	41	-	3,682
Preferred shares	2,377	77	-	2,454
Total	<u>\$ 12,156</u>	<u>\$ 554</u>	<u>\$ -</u>	<u>\$ 12,710</u>

The amortized cost and fair value of securities by contractual maturity at December 31, 2023 was (U.S.dollars in thousands):

	Amortized Cost	Fair Value
Due after one year through five years	\$ 2,377	\$ 2,454
Due after five years through ten years	6,138	6,574
Due after ten years through twenty years	3,641	3,682
Total	<u>\$ 12,156</u>	<u>\$ 12,710</u>

We categorize our securities by National Association of Insurance Commissioners (“NAIC”) rating. NAIC rating designations are assigned according to rules established by the NAIC and generally, but not in every case, correspond to ratings assigned by the major rating agencies, with an NAIC-1 rating generally corresponding to a rating of “A-” or better, an NAIC-2 rating generally corresponding to ratings of “BBB-” to “BBB+” and so forth.

At December 31, 2023, the Company’s securities portfolio by rating was (U.S. dollars in thousands):

	Amortized Cost	Fair Value
NAIC-1	\$ 3,641	\$ 3,682
NAIC-2	8,515	9,028
Total	<u>\$ 12,156</u>	<u>\$ 12,710</u>

Funds Withheld Asset

At December 31, 2023 and 2022, the Company's funds withheld assets were comprised of five agreements, four of which relate to reinsurance and retroceded arrangements with an affiliated insurer under common control, Oceanview Life and Annuity Company (“OVLAC”), rated “A” by A.M. Best. See Note H – Related Party Transactions for further details.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
For the years ended December 31, 2023 and 2022

At December 31, 2023, the Company's funds withheld asset was comprised of the following underlying assets (U.S. Dollars in thousands):

	Total	% of Total
Residential mortgage loans	\$ 145,760	5.6%
Commercial mortgage loans	452,092	17.4%
Preferred shares	323,747	12.5%
Government and Corporate bonds	895,365	34.4%
Structured securities	704,037	27.1%
Derivatives	7,028	0.3%
Cash	31,501	1.2%
Other assets	38,117	1.5%
	\$ 2,597,647	100.0%

At December 31, 2022, the Company's funds withheld asset was comprised of the following underlying assets (U.S. Dollars in thousands):

	Total	% of Total
Residential mortgage loans	\$ 136,002	5.6%
Commercial mortgage loans	514,863	21.1%
Preferred shares	147,553	6.0%
Government and Corporate bonds ¹	474,863	19.4%
Structured securities ²	664,568	27.2%
Derivatives	2,275	0.1%
Cash ³	492,589	20.1%
Other assets ⁴	12,926	0.5%
	\$ 2,445,639	100.0%

¹Includes underlying assets presented as US corporate bonds and Municipal bonds in the 2022 financial statements

²Includes underlying assets presented as non-agency mortgage backed securities in the 2022 financial statements

³Includes underlying assets presented as payables in the 2022 financial statements

⁴Includes underlying assets presented as other structured securities in the 2022 financial statements

Oceanview Reinsurance Ltd.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
For the years ended December 31, 2023 and 2022

NOTE D - GENERAL ACCOUNT NET INVESTMENT GAIN (LOSS)

General account net investment gain (loss) includes interest and other income from general account investments and is recorded net of investment expenses. General account net investment gain (loss) includes net realized investment gain from the sale and unrealized changes in fair value of general account investments. Gains and losses on the sale of general account investments are determined using the specific cost identification method.

The major sources of general account net investment gain (loss) in the accompanying consolidated statements of operations are as follows (U.S. dollars in thousands):

	For years ended December 31,	
	2023	2022
Interest earned on cash and securities	\$ 3,823	\$ 166
Unrealized gain on securities	448	-
Other income	-	78
Gross investment income	4,271	244
Investment expenses	(1,295)	(1,480)
General account net investment gain (loss)	\$ 2,976	\$ (1,236)

NOTE E - FINANCIAL DERIVATIVE INSTRUMENTS

At December 31, 2023 and 2022, the Company had not elected to designate any derivatives for hedge accounting under ASC 815. Derivatives are reported at fair value. Changes in fair value are included in general account net derivative loss in the consolidated statements of operations. The Company reports all derivative balances and related cash collateral subject to enforceable master netting arrangements on a gross basis within the consolidated balance sheets.

Forward Contracts

The Company enters into to-be-announced (“TBA”) securities as a means of protecting the Company against its risk related to certain assets. Pursuant to TBA contracts, the Company agrees to purchase or sell, for future delivery, agency securities with certain principal and interest terms and certain types of collateral, whereby the particular agency securities to be delivered are not identified until shortly before the TBA settlement date. The Company may also choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting short or long position, net settling the paired off positions for cash, and simultaneously purchasing or selling a similar TBA contract for a later settlement date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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Futures Contracts

Eurodollar futures are exchange traded futures contracts with prices related to short-term U.S. dollar interest rates. Eurodollars are U.S. dollars deposited in commercial banks outside the United States. Eurodollar futures prices reflect market expectations for interest rates on three-month Eurodollar deposits for specified dates in the future. Futures contracts are settled in cash upon expiration. Upon entering into such contracts, the Company is required to pledge to the broker an amount of cash greater than or equal to the minimum “initial margin” requirements of the relevant exchange. Pursuant to the contracts, the Company agrees to receive from or pay to the broker an amount of cash greater than or equal to daily fluctuation in the value of the contracts. When the contracts are closed, the Company records a realized gain or loss equal to the difference between the value of the contracts at the time they were opened and the value at the time they were closed. Any unrealized appreciation or depreciation recorded is simultaneously reversed. The use of futures transactions involves the risk of an imperfect correlation in the movements in the price of futures contracts and interest rates.

General

The following tables present the notional amount and fair value of derivative instruments at December 31, 2023 (U.S. dollars in thousands):

Instrument	Net Notional Value	Fair Value	
		Assets	Liabilities
Forward contracts	\$ (10,000)	\$ -	\$ (225)
	<u>\$ (10,000)</u>	<u>\$ -</u>	<u>\$ (225)</u>

The following tables present the notional amount and fair value of derivative instruments at December 31, 2022 (U.S. dollars in thousands):

Instrument	Net Notional Value	Fair Value	
		Assets	Liabilities
Interest rate contracts			
Forward contracts	\$ 19,000	\$ 225	\$ -
Bond futures	3,500	18	-
	<u>\$ 22,500</u>	<u>\$ 243</u>	<u>\$ -</u>

Oceanview Reinsurance Ltd.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
For the years ended December 31, 2023 and 2022

The effect of derivative instruments on the consolidated statements of operations for the year ended December 31, 2023 is as follows (U.S. dollars in thousands):

	December 31, 2023	
Instrument	Realized Gain	Unrealized Loss
Interest rate contracts		
Forward contracts	\$ 349	\$ (450)
Futures contracts	31	(19)
	\$ 380	\$ (469)

The effect of derivative instruments on the consolidated statements of operations for the year ended December 31, 2022 is as follows (U.S. dollars in thousands):

	December 31, 2022	
Instrument	Realized Gain (Loss)	Unrealized Gain (Loss)
Interest rate contracts		
Forward contracts	\$ 1,144	\$ 223
Eurodollar futures	(9,696)	693
Interest rate swaps	3,532	(137)
	\$ (5,020)	\$ 779

NOTE F - FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurement and Disclosures*, provides a framework for measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. Investments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values as follows:

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- Level 1 – Valuation is based on unadjusted quoted prices in active markets for identical assets and liabilities that are accessible at the reporting date.
- Level 2 – Valuation is determined from pricing inputs that are other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. Observable inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 – Valuation is based on unobservable inputs that are significant to the fair value measurement and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value generally require significant management judgment or estimation.

The balance of assets and liabilities measured at fair value as of December 31, 2023, is as follows (U.S. dollars in thousands):

Assets	Level 1	Level 2	Level 3	Total
Funds withheld asset	\$ 277,854	\$ 1,442,311	\$ 877,482	\$ 2,597,647
Trading securities	2,454	10,256	-	12,710
Total assets at fair value	<u>\$ 280,308</u>	<u>\$ 1,452,567</u>	<u>\$ 877,482</u>	<u>\$ 2,610,357</u>
Liabilities	Level 1	Level 2	Level 3	Total
Insurance reserves	\$ -	\$ -	\$ 2,410,727	\$ 2,410,727
Forward contracts	225	-	-	225
Total liabilities at fair value	<u>\$ 225</u>	<u>\$ -</u>	<u>\$ 2,410,727</u>	<u>\$ 2,410,952</u>

The balance of assets and liabilities measured at fair value as of December 31, 2022, is as follows (U.S. dollars in thousands):

Assets	Level 1	Level 2	Level 3	Total
Funds withheld asset	\$ 506,363	\$ 1,275,484	\$ 663,792	\$ 2,445,639
Bond futures	18	-	-	18
Forward contracts	225	-	-	225
Total assets at fair value	<u>\$ 506,606</u>	<u>\$ 1,275,484</u>	<u>\$ 663,792</u>	<u>\$ 2,445,882</u>
Liabilities	Level 1	Level 2	Level 3	Total
Insurance reserves	\$ -	\$ -	\$ 2,243,588	\$ 2,243,588
Total liabilities at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,243,588</u>	<u>\$ 2,243,588</u>

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The following summarizes the quantitative inputs and assumptions used for items categorized as Level 3 of the fair value hierarchy as of December 31, 2023 (U.S. dollars in thousands):

Investment Type	Fair Value	Valuation Technique	Unobservable Input	Weighted Average
Funds withheld asset – large balance commercial mortgages	\$ 377,198	Weighted average credit spread	Weighted average spread	4.1%
Funds withheld asset – small balance commercial mortgages	\$ 74,894	Discounted cash flows	Spread	4.2%
			Probability of default	9.0%
			Loss severity	30.3%
Funds withheld asset – federally insured residential mortgages	\$ 21,591	Discounted cash flows	Spread	3.5%
Funds withheld asset – non-federally insured residential mortgages	\$ 124,169	Discounted cash flows	Spread	2.7%
			Probability of default	1.3%
			Loss severity	27.7%
Funds withheld asset – preferred stock	\$ 14,252	Discounted cash flows	Discount rate	9.7%
Funds withheld asset – structured securities	\$ 207,415	Discounted cash flows	Discount rate	7.6%
Funds withheld asset – corporate bonds	\$ 19,847	Discounted cash flows	Discount rate	9.8%
Funds withheld asset – other equities and alternatives	\$ 38,117	Discounted cash flows	Discount rate	12.5%
Insurance reserves, at fair value	\$ 2,410,726	Income approach (ASC 820)	Non-performance risk spread	3.3%
			Risk margin to reflect uncertainty	0.6%

The following summarizes the quantitative inputs and assumptions used for items categorized as Level 3 of the fair value hierarchy as of December 31, 2022 (U.S. dollars in thousands):

Investment Type	Fair Value	Valuation Technique	Unobservable Input	Weighted Average
Funds withheld asset – large balance commercial mortgages	\$ 356,964	Weighted average credit spread	Weighted average spread	4.2%
Funds withheld asset – small balance commercial mortgages	\$ 157,900	Discounted cash flows	Spread	4.1%
			Probability of default	11.0%
			Loss severity	24.0%
Funds withheld asset – federally insured residential mortgages	\$ 43,512	Discounted cash flows	Spread	3.5%
Funds withheld asset – non-federally insured residential mortgages	\$ 92,490	Discounted cash flows	Spread	2.4%
			Probability of default	2.0%
			Loss severity	32.7%
Funds withheld asset – other securities	\$ 12,926	Discounted cash flows	Discount rate	9.0%
Insurance reserves, at fair value	\$ 2,243,588	Income approach (ASC 820)	Non-performance risk spread	2.1%
			Risk margin to reflect uncertainty	0.5%

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Transfers between levels

During the year ended December 31, 2023, the Company transferred \$169.5 million of assets into the Level 3 classification. During the year ended December 31, 2022, the Company did not transfer any assets between levels.

Purchases of fair value assets

During the year ended December 31, 2023, the Company purchased \$70.8 million in assets classified as Level 3. For the year ended December 31, 2022, the Company purchased \$9.69 million in assets classified as Level 3.

NOTE G - FEDERAL INCOME TAXES

The provision for income tax is as follows (U.S. dollars in thousands):

	December 31,	
	2023	2022
Current		
Federal	\$ -	\$ 4,095
Subtotal	-	4,095
Deferred		
Federal	6,772	(4,109)
Subtotal	6,772	(4,109)
Provision (benefit) for income taxes	<u>\$ 6,772</u>	<u>\$ (14)</u>

The reconciliation of the income tax provision is as follows (U.S. dollars in thousands):

	December 31,	
	2023	2022
Tax provision (benefit) at statutory rate	\$ 6,772	\$ (14)
Tax effect of:		
Permanent difference	-	-
Change in valuation allowances	-	-
Provision (benefit) for income taxes	<u>\$ 6,772</u>	<u>\$ (14)</u>

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Deferred income tax represents the tax effect of the differences between the book and tax bases of assets and liabilities. Net deferred income tax assets and liabilities consisted of (U.S. dollars in thousands):

	December 31,	
	2023	2022
Deferred income tax assets:		
Discounted reserves	\$ 6,616	\$ 6,481
Net operating loss	2,601	-
Accrued expenses	5	2
Total deferred income tax assets	9,222	6,483
Deferred income tax liabilities:		
GAAP-to-Stat adjustments	11,885	2,374
Total deferred income tax liabilities	11,885	2,374
Net deferred income tax asset (liability)	\$ (2,663)	\$ 4,109

At December 31, 2023 and 2022, the Company had net operating loss carry forwards of \$2,601 thousand and \$0, respectively. At December 31, 2023 and 2022, the Company had no carryforwards for general business credit and foreign tax credit. At December 31, 2023 and 2022, the Company had no liability for unrecognized tax benefits and was not under audit by the IRS or any state authority. The Company is filing a stand alone U.S. federal income tax return in accordance with the provisions of the IRC.

On August 16, 2022, the U.S. government signed into law the Inflation Reduction Act (the "Act"). Effective for tax years beginning after December 31, 2022, the Act includes a new corporate alternative minimum tax ("CAMT") on certain corporations. The Company files a standalone U.S Federal tax return and does not meet the average "adjusted financial statement income" threshold for CAMT purposes. As such, the Company is a nonapplicable reporting entity and is not subject to pay CAMT. As of December 31, 2023, the Company is not required to calculate or recognize a payable for CAMT in 2023 and will not have a CAMT credit carryforward.

On December 27, 2023, the government of Bermuda enacted the Act which introduces a 15% corporate income tax on Bermuda businesses that are part of an In Scope MNE Group, effective for fiscal years beginning on or after January 1, 2025, with a five-year deferred effective date for certain MNE groups with a limited international footprint. The Act defines an In Scope MNE Group as an MNE Group if, with respect to any fiscal year beginning on or after the commencement date, the MNE Group has annual revenue of EUR 750 million or more in the consolidated financial statements of the ultimate parent entity for at least two of the four fiscal years immediately preceding such fiscal year. The Company's annual revenue on the consolidated financial statements has been under the EUR 750 million requirement. Pursuant to the In Scope MNE Group definition in the legislation, the Company (collectively with its subsidiaries) has determined as of the reporting date it will not be in scope for Bermuda Corporate Income Tax.

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NOTE H - RELATED PARTY TRANSACTIONS

The Company has various intercompany agreements with affiliates of Bayview for the provision of various services including investment management, executive and administrative oversight, legal, data processing, bookkeeping, service operations, internal audit and other services.

Affiliate Expenses

The Management Company provides investment advice and directs the investments in Portfolio Assets. The Management Company is paid a fixed asset management fee for its services, payable in advance on the first day of each month. The Management Company may, in its sole discretion, reduce or waive the asset management fee for any period. For the years ended December 31, 2023 and 2022, the Company incurred asset management fees of \$1.2 million and \$1.5 million, respectively.

Retrocession and Reinsurance Agreements

The Company has entered into five funds withheld coinsurance agreements and one coinsurance agreement. Four of the five funds withheld coinsurance agreements are with OVLAC, an affiliated insurance company domiciled in the State of Alabama. Refer to Note C - Investments for further details.

Affiliate Notes Payable

As of December 31, 2023 and 2022, the Company has an affiliate note payable to OVH of \$0 million and \$21 million, respectively. During 2022, \$21 million of the then-outstanding note payable was converted to additional paid in capital. During 2023, the remaining note payable of \$21 million and all associated accrued interest was converted to additional paid in capital.

NOTE I – STOCKHOLDER’S EQUITY

Authorized and issued share capital

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

Additional paid in capital

During the years ended December 31, 2023 and 2022, the Company received \$55.5 million and \$21 million, respectively, in additional contributions from its stockholder. These include conversion of note payable (refer to Note H Related Party Transactions for details).

Non-controlling interest

OVUSHP owns a 25% interest in the Company’s subsidiary OBR. During the years ended December 31, 2023 and 2022, the Company received \$4.7 million and \$4.6 million, respectively, in equity contribution from OVUSHP in relation to OBR.

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NOTE J - RISKS AND UNCERTAINTIES

In the normal course of business, the Company encounters economic and regulatory risks which are described below.

Regulatory Risk

Regulatory risk is the risk of loss due to changes in regulations or non-compliance with existing regulations. The Company's business plan requires it to maintain its license as a Class E insurer in Bermuda. Failure to maintain this license in good standing would adversely affect the Company. Similarly, inability to comply with a changing legal and regulatory environment could also subject the Company to penalties, unanticipated costs or interruption to the Company's operations. The Company mitigates this risk through timely production of regulatory compliance deliverables, regular and open communication with the Bermuda regulator, discussions with internal and external counsels and other third parties as and when necessary, annual compliance assessment with the Bermuda Insurance Code of Conduct, and participation in industry trade association to monitor regulatory developments. As a Class E insurer, the Company is subject to Bermuda's Insurance Act 1978 ("Bermuda Insurance Act") as well as other applicable Bermuda law and regulations. Among other requirements, Class E insurers must at all times maintain Minimum Margin of Solvency ("MMS") and Enhanced Capital Requirement ("ECR") in accordance with the Bermuda Insurance Act. Class E insurers must maintain MMS that is the greater of: (1) \$8 million; (2) 2% of the first \$500 million of assets plus 1.5% of applicable assets above \$500 million; or (3) 25% of the ECR. The ECR is based on the Economic Balance Sheet ("EBS") framework and the Bermuda Solvency Capital Requirement ("BSCR") which is Bermuda's risk-based capital requirement. In addition to the MMS requirement, a Class E insurer must maintain available statutory economic capital and surplus that equals or exceeds its ECR. The Company was in compliance with such laws and regulations as of December 31, 2023.

Fixed Income Investment Risk

Fixed income investment risk is the risk of change in the value of fixed rate securities due to change in interest rates and credit spreads, and the risk that an issuer of a security or obligation becomes impaired or defaults, resulting in a financial loss.

The Management Company works within the investment policy and guidelines approved by the Company's Board of Directors (the "Board"). Additionally, investment guidelines are also agreed with cedants as part of reinsurance contracts. These guidelines provide detailed composition and allocation limits and have been agreed with the Management Company. Any breaches are reported to the Company's management and the Board for their review and commentary. In addition, the Board also monitors overall investment risks. Credit spread risk is managed by having a robust Asset-Liability Management ("ALM") policy and procedures in place. The Company's credit securities are of high credit quality and most of its liabilities are renewable over the short term with adjustable crediting rates and priced-in minimum crediting rate guarantees. Therefore, changes in credit spreads can be passed on to the policyholders upon renewal.

Interest Rate and Liquidity Risk

Interest rate and liquidity risk is the risk that changes in interest rates adversely and disproportionately impact the value of interest-sensitive assets relative to the value of the liabilities. This risk is mitigated by OAM working within the contractually agreed and Board-approved investment guidelines and policies.

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The Company has an ALM program that minimizes asset-liability mismatch risk through duration matching, and combined with a hedging program, ensures that interest rate sensitivities are maintained within acceptable ranges.

Concentration Risk

Concentration risk is the risk of high concentration of exposure to counterparties and credit risk associated with those counterparties. This risk is mitigated through concentration limits on asset classes and rating categories. Further, concentration limits within each asset class are applied and are set based on the relevant characteristics of the class. For example, residential mortgage loans have concentration limits based on geographic location, property type, etc. Concentration limits for corporate credit are based on allocation limits applied to a given sector and obligor. The Company's and OBR's investment policy and guidelines specify the concentration limits that the Company abides by.

Lapse and Expense Risk

Lapse risk is the risk of loss because of adverse deviation of actual to expected policyholder surrenders and partial withdrawals. This risk is mitigated through appropriate pricing and analysis (including sensitivity testing) of cedant's lapse experience at the pricing stage. After the treaty has been onboarded, the risk is monitored and mitigated through analysis of actual to expected lapse experience, profit and loss attribution to lapse activity, lapse stress and scenario testing, and industry benchmarking. Lapses are sensitive to crediting rates. Regular monitoring and benchmarking of crediting rates is carried out and crediting rates are set at a competitive level.

Expense risk is the risk of deviation in operational expenses from expected. Actual versus budgeted operational expenses are monitored regularly. A detailed analysis of operational and administrative expenses by category is carried out and variances reviewed to ensure operational expenses are managed within the budget. Inflation is monitored and appropriately allowed for in the budget, pricing process, and reserves.

Mortality Risk

Mortality risk is the risk of adverse fluctuations in or deterioration of mortality experience relative to expectations.

This risk is mitigated through appropriate pricing and analysis (including sensitivity testing) of the cedant's mortality experience at the pricing stage. After the treaty has been onboarded, analysis of actual to expected mortality experience, profit and loss attribution to mortality, and mortality stress and scenario testing, help monitor and mitigate the risk.

Operational Risk

Operational risk is the risk of losses caused by flawed or failed processes, policies, systems, or events that disrupt business operations. In addition, the Company also includes reputational, corporate governance, finance, legal, and strategic risks under the operational risk umbrella.

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NOTE K - COMMITMENTS AND CONTINGENCIES

The Company is not involved in any material claims or legal actions as at April 30, 2024. Management is not aware of any claims or legal actions that would have a material adverse effect on the Company's financial position, results of operations or cashflows.

NOTE L - SUBSEQUENT EVENTS

The Company has evaluated events and transactions that occurred during the period from the consolidated balance sheet through April 30, 2024, the date the Company's consolidated financial statements were available to be issued.

On March 31, 2024, the Company and Oceanview Life and Annuity Company entered into an agreement to terminate two reinsurance arrangements relating to \$500 million of funding agreements. This early termination agreement resulted in the Company relieving \$486 million of net insurance liabilities.