

Audited Financial Statements

Kindley Re Ltd.

For the Year Ended December 31, 2023 and
the Period from November 17, 2022 (Date of Incorporation)
to December 31, 2022

With Report of Independent Auditors

Kindley Re Ltd.
Audited Financial Statements
For the Year Ended December 31, 2023 and
the Period from November 17, 2022 (Date of Incorporation)
to December 31, 2022

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Ernst & Young Ltd.
3 Bermudiana Road
Hamilton HM 08
P.O. Box HM 463
Hamilton HM BX
BERMUDA

Tel: +1 441 295 7000
Fax: +1 441 295 5193
ey.com

Report of Independent Auditors

The Board of Directors
Kindley Re Ltd.

Opinion

We have audited the financial statements of Kindley Re Ltd. (the Company), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations and comprehensive income (loss), changes in shareholder's equity and cash flows for the year ended 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022, and 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 at December 31, 2023 and 2022, and the results of its operations and its cash flows for the year ended 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 that 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 financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.



We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young Ltd.

Hamilton, Bermuda
April 30, 2024

Kindley Re Ltd.

Balance Sheets

As at December 31, 2023 and 2022

(expressed in U.S. dollars)

	December 31, 2023	December 31, 2022
	\$	\$
Assets		
Cash and cash equivalents	83,283,565	66,226,932
Fixed maturity securities, available-for-sale, at fair value (amortized cost: 2023 - \$106,734,626 and allowance for credit losses: 2023 - \$0) (notes 3 and 5)	105,944,500	-
Derivative assets (notes 4 and 5)	13,281,585	-
Funds withheld assets (note 4)	2,554,972,353	1,127,264,525
Total cash and invested assets	2,757,482,003	1,193,491,457
Accrued investment income	834,288	15,036
Accounts receivable (note 9)	125,824,826	30,911,457
Deferred acquisition costs (note 6)	167,949,149	84,549,735
Total assets	3,052,090,266	1,308,967,685
Liabilities		
Future policy benefit reserves (note 4)	2,627,653,842	1,122,729,841
Settlement payable and accrued expenses	25,049,172	29,653,788
Total liabilities	2,652,703,014	1,152,383,629
Shareholder's equity		
Share capital (note 7)	250,000	250,000
Additional paid-in capital (note 7)	372,388,043	157,214,238
Retained earnings (accumulated deficit)	27,539,335	(880,182)
Accumulated other comprehensive (loss) income	(790,126)	-
Total shareholder's equity	399,387,252	156,584,056
Total liabilities and shareholder's equity	3,052,090,266	1,308,967,685



Director

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

Kindley Re Ltd.

Statements of Operations and Comprehensive Income (Loss)

For Year Ended December 31, 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022

(expressed in U.S. dollars)

	December 31, 2023	December 31, 2022
	\$	\$
Revenues		
Premium Income	31,499,556	-
Investment income from funds withheld	128,665,113	-
Realized income (losses) from funds withheld	(33,667)	-
Derivatives income (losses) from funds withheld	14,467,192	-
Unrealized gains (losses) on embedded derivative	13,281,585	-
Investment management expenses	(6,604,838)	-
Net investment income	7,590,068	15,036
Realized gains (losses) on investments	104,459	-
Total revenues	188,969,468	15,036
Benefits and Expenses		
Claims and other insurance expenses	44,368,966	-
Interest credited to policyholder account balances	99,843,718	-
Amortization of deferred acquisition costs (note 6)	7,718,590	-
Net foreign exchange gains (losses)	(1,362,669)	-
Operating expenses	9,981,346	895,218
Net income (loss)	28,419,517	(880,182)
Other Comprehensive income (loss)		
Unrealized income (losses) on available for sale securities	(790,126)	-
Total other comprehensive income (loss)	(790,126)	-
Total comprehensive income (loss)	27,629,391	(880,182)

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

Kindley Re Ltd.

Statements of Changes in Shareholder's Equity

For Year Ended December 31, 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022

(expressed in U.S. dollars)

	Share capital \$	Additional paid-in- capital \$	Retained earnings (accumulated deficit) \$	Accumulated other comprehensive income (loss) \$	Total \$
Balance, November 17, 2022 (Date of Incorporation)	-	-	-	-	-
Issued and fully paid shares at \$1 par value	250,000	-	-	-	250,000
Capital contributions (note 7)	-	157,214,238	-	-	157,214,238
Net income (loss)	-	-	(880,182)	-	(880,182)
Balance, December 31, 2022	250,000	157,214,238	(880,182)	-	156,584,056
Capital contributions (note 7)	-	215,173,805	-	-	215,173,805
Net income (loss)	-	-	28,419,517	-	28,419,517
Other comprehensive income (loss)	-	-	-	(790,126)	(790,126)
Balance, December 31, 2023	250,000	372,388,043	27,539,335	(790,126)	399,387,252

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

Kindley Re Ltd.

Statements of Cash Flows

For Year Ended December 31, 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022

(expressed in U.S. dollars)

	December 31, 2023	December 31, 2022
	\$	\$
Cash flows from operating activities		
Net income (loss)	28,419,517	(880,182)
Adjustments to reconcile net income (loss) to net cash flows (used in) generated by operating activities:		
Realized and unrealized (gains) losses on investments	(104,459)	-
Unrealized (gains) losses on embedded derivatives	(13,281,585)	-
Changes in operating assets and liabilities:		
Funds withheld assets	(1,427,707,828)	(1,127,264,525)
Accrued investment income	(819,252)	(15,036)
Deferred acquisition costs	(83,399,414)	(84,549,735)
Accounts receivable	13,380,200	(30,911,457)
Future policy benefit reserves	1,504,924,001	1,122,729,841
Settlement payable and accrued expenses	(4,604,616)	29,653,788
Net cash (used in) generated by operating activities	16,806,564	(91,237,306)
Cash flows from investing activities		
Purchase of securities at fair value	(110,620,889)	-
Sale of securities at fair value	3,990,722	-
Net cash (used in) generated by investing activities	(106,630,167)	-
Cash flows from financing activities		
Paid in share capital	-	250,000
Additional paid in capital	106,880,236	157,214,238
Net cash provided by financing activities	106,880,236	157,464,238
Change in cash and cash equivalents	17,056,633	66,226,932
Cash and cash equivalents - beginning	66,226,932	-
Cash and cash equivalents - end	83,283,565	66,226,932
Supplemental disclosures:		
Non-cash transaction - Capital contribution from Parent	108,293,569	-

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

Kindley Re Ltd.

Notes to Financial Statements

For Year Ended December 31, 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022

(expressed in U.S. dollars)

1. *Organization and corporate structure*

Kindley Re Ltd. ("Kindley" or "the Company"), a Bermuda exempted company with limited liability, was incorporated on November 17, 2022 (Date of Incorporation). The Company was registered as a Class E insurer under The Insurance Act 1978 of Bermuda, effective December 28, 2022.

The Company is solely owned by Kindley Intermediate Holdings Limited ("KIHL"), a holding company incorporated under the laws of Bermuda. The ultimate controlling shareholders of the Company are affiliates of Davidson Kempner Capital Management LP ("DK").

The Company serves the reinsurance marketplace as a reinsurer providing capacity exclusively for transactions sourced, negotiated, and underwritten by subsidiaries of the Kuvare Holdings UK ("the Sponsor" or "Kuvare"). Through the five quota share arrangements with the Sponsor entities, Kindley accesses an attractive blend of direct retail business, flow reinsurance and block reinsurance, presenting a mix of annuity and life insurance liabilities. The transactions have been executed on either a Funds Withheld or Modified Coinsurance basis ("modco"). Reserves assumed represent annuity products including fixed deferred contracts, fixed indexed annuity contracts, and preneed contracts. For the year ending December 31, 2023, Kindley had made amendments to two of the treaty arrangements from Modified Coinsurance to Funds Withheld, leaving all Kindley's current business in Funds Withheld structures.

2. *Summary of significant accounting policies*

a) **Basis of preparation**

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

b) **Cash and cash equivalents**

Cash and cash equivalents include deposits, money-market funds, and short-term highly liquid investments (maturity of less than ninety days from the date of acquisition) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

c) **Fixed maturity securities**

The Company's fixed maturity securities are classified as available-for-sale, and are carried at fair value, with unrealized gains and losses being reported as a component of accumulated other comprehensive income (loss). Investment income is recognized as it accrues or is legally due, net of investment management and custody fees. Investment income on fixed maturity securities includes coupon interest, as well as the amortization of any premium and the accretion of any discount. Realized investment gains and losses are recognized on a first-in first-out basis and are reported in net realized gains (losses) on investments within the statement of operations.

Effective January 1, 2023, in connection with the adoption of a new accounting standard, the Company evaluates fixed maturity securities in an unrealized loss position for expected credit losses. First, we assess whether we intend to sell, or it is more likely than not that we will be required to sell, the security before recovery of its amortized cost. If either of the criteria is met, the

Kindley Re Ltd.

Notes to Financial Statements

For Year Ended December 31, 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022

(expressed in U.S. dollars)

security's amortized cost is written down to its fair value. For fixed maturity securities that do not meet either criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If management deems a credit loss has occurred, the impairment is recorded through an allowance for credit losses rather than as a write-down. Changes in the allowance for credit losses are recorded through operations. Any impairment that has not been recorded through an allowance for credit losses is recognized in accumulated other comprehensive income on our balance sheets.

The Company records investments on a trade date basis, with any unsettled trades at year end recorded in accounts receivable or accounts payable and accruals on the balance sheet.

d) Funds withheld assets

Funds withheld assets represent a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which the Company acts as reinsurer or a modified coinsurer in the case of modco transactions. Although the assets in funds withheld and modco trusts are legally owned by the ceding company, the assets are separated from the general accounts of the cedants and all economic rights and obligations on the assets accrue to the Company. The underlying agreements contain embedded derivatives as discussed in derivatives.

e) Embedded Derivatives

Authoritative guidance for derivatives and hedging (ASC Topic 815) states that an embedded derivative shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risk of the host contract.

The coinsurance funds withheld and modco agreements with the Cedants results in an embedded derivative as the assets backing the liabilities are retained by the Cedants, but their underlying value is determined by factors separate from the host contract, namely interest rate and credit spread movement impacting the valuation of the underlying investments in the funds withheld and modco accounts. The embedded derivative was initially valued at zero and subsequently valued based on the change in fair value of the underlying funds withheld and modco assets.

Fixed indexed annuity liabilities contain an embedded derivative resulting from change in value of liabilities related to the reference market index performance. The fair value of the embedded derivative is computed as the present value of benefits attributable to the excess of the projected policy contract values over the projected minimum guaranteed contract values. The projections of policy contract values are based on assumptions for future policy growth, which include assumptions for expected index credits, interest rates and policyholder behavior. The projections of minimum guaranteed contract values include the same assumptions for policyholder behavior as are used to project policy contract values. The embedded derivative cash flows are discounted using a risk free interest rate increased by a non-performance risk spread, adjusted for the Company's own credit rating. Changes in the fair value of the embedded derivative are included in interest-sensitive life and investment-type contract liabilities.

f) Deferred acquisition costs

Costs that are related directly to the successful acquisition of new and renewal insurance business are deferred to the extent they are recoverable from future gross profits. Deferred acquisition costs ("DAC") primarily consists of commissions paid. Periodic testing is performed to determine if

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Notes to Financial Statements

For Year Ended December 31, 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022

(expressed in U.S. dollars)

DAC is recoverable, if it is determined that DAC is not recoverable, a cumulative charge is recorded to the current period. The DAC for interest-sensitive life and investment-type contracts is amortized over the life of the policies in proportion to the present value of the estimated gross profit amounts expected to be realized. Estimates of future gross profits are based on assumptions using accepted actuarial methods. Amortization is recorded as an expense within the statement of operations. DAC for limited pay contracts is amortized over the premium paying period, in proportion to anticipated premium income.

g) Future Policy benefit reserves

Liabilities for future benefits on interest-sensitive life and investment-type contract liabilities, including fixed deferred annuities, fixed indexed annuities and the fixed annuity component of reinsured variable annuity contracts are carried at the accumulated contract holder values without reduction for potential surrender or withdrawal charges. These are equal to the balance that accrue to the benefit of the policyholders as of the financial statement date (commonly referred to as the account value), including policyholders' accumulated net deposits plus interest credited, indexed related credited amounts on fixed indexed annuity products and investment performance less policyholder withdrawals, fees, and policy charges. The liability for fixed indexed annuities consists of a combination of the underlying account value and an embedded derivative value.

Where applicable, liabilities for future benefits on interest-sensitive life and investment-type contract liabilities also include a sales inducement liability ("SIL") associated with the maturity benefit at the end of the term. The SIL accrues to the set maturity benefit based on projected inforce values over time, and is accrued for interest, adjusted for actual decrements in each period.

Liabilities for future benefits on life and structured settlement contracts are established using accepted actuarial valuation methods based on assumptions related to future claim costs, investment yields, mortality, withdrawals, and maintenance expenses, determined when the policies were assumed. An additional provision is made to allow for potential adverse deviation for some assumptions. Once established, assumptions on these contracts are locked in at inception and not modified unless a premium deficiency exists. The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish future policy benefit reserves. If the net GAAP liability (gross reserves less DAC, if any) is less than the present value of expected future gross premiums, then a premium deficiency reserve is recognized until the net GAAP liability is equal to the present value of expected future gross premiums. The future pattern of benefit reserve changes is modified to reflect the updated assumptions related to future claim costs, investment yields, mortality, withdrawals, and maintenance expenses, determined without an additional provision for potential adverse deviations.

Due to the many assumptions and estimates used in establishing reserves and the long-term nature of the reinsurance contracts, the reserving process, while based on standard actuarial practices, is inherently uncertain.

h) Recognition of revenues and related expenses

The amounts collected on interest-sensitive life and investment-type reinsurance contracts are considered deposits and are recognized as part of the future policy benefit reserves. Premiums related to life and structured settlement reinsurance contracts are recognized as revenue when due.

Interest-sensitive life and investment-type benefits include interest credited to policyholder account values, policy administration and benefit claims incurred in the period in excess of related policyholders' account balances.

Kindley Re Ltd.

Notes to Financial Statements

For Year Ended December 31, 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022

(expressed in U.S. dollars)

i) Fair value measurements

Authoritative guidance for *Fair Value Measurements and Disclosures* defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. In compliance with these principles, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument. In accordance with the authoritative guidance for Fair Value Measurements and Disclosures, assets and liabilities recorded at fair value on the balance sheet are categorized as Level 1, 2 and 3.

- * Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. The Company defines an active market as a market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- * Level 2 - Quoted prices in markets that are not active or valuation techniques that require inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:
 - Quoted prices for similar assets or liabilities (other than quoted prices in Level 1) in active markets;
 - Quoted prices for identical or similar assets or liabilities in non-active markets;
 - Inputs other than quoted market prices that are observable; and
 - Inputs that are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the assets or liabilities.
- * Level 3 - Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These valuations, whether derived internally or obtained from a third party, use critical assumptions that are not widely available to estimate market participant expectations in valuing the asset or liability. When available, the estimated fair value of securities is based on quoted prices in active markets that are readily and regularly obtainable. When quoted prices in active markets are not available, the determination of estimated fair value may be based on market standard valuation methodologies (pricing models), including discounted cash flow methodologies, matrix pricing, or other similar techniques, as well as significant management judgement or estimation.

j) Income taxes

On December 27, 2023, the Government of Bermuda enacted the Corporate Income Tax Act of 2023 (Bermuda CIT). Commencing on January 1, 2025, the Bermuda CIT generally will impose a 15% corporate income tax on entities that are tax residents in Bermuda or have a Bermuda permanent establishment and are members of multi-national groups "MNE" with consolidated revenues in excess of €750 million for at least two of the last four fiscal years, without regard to any assurances that have been given pursuant to the Exempted Undertakings Tax Protection Act 1966. The Bermuda CIT also includes various transitional provisions and elections that may reduce the amount of tax imposed. Section 13 of the CIT excludes an entity from the scope of the corporate

Kindley Re Ltd.

Notes to Financial Statements

For Year Ended December 31, 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022

(expressed in U.S. dollars)

income tax due to the Limited International Footprint Exclusion. As of December 31, 2023, the Company is considered to be part of an MNE group with a limited international footprint. The company has also not met the revenue thresholds in order to be in scope for the Bermuda CIT at this time. For these reasons, it has not accrued any deferred tax expense or benefit relating to the CIT as of December 31, 2023.

k) Foreign Currency Transactions

Foreign currency transactions, revenue and expense items denominated in a currency other than the functional currency are converted into the functional currency at the average rates of exchange for the period. Monetary assets and liabilities denominated in currencies other than the functional currency are remeasured into the functional currency at the rates of exchange at the balance sheet date. The resulting foreign exchange transaction gains or losses are included in net foreign exchange gains (losses) in the Statement of Operations. Non-monetary assets and liabilities denominated in foreign currency are not subsequently remeasured.

l) Adopted accounting pronouncements

In June 2016, the Financial Accounting Standards Board "FASB" issued new guidance on the measurement of credit losses on financial instruments, including reinsurance recoverables. This guidance replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses is based on historical loss information, current conditions, and reasonable and supportable forecasts. The new guidance also requires that a credit impairment on a debt security be recognized as an allowance going forward, such that improvements in expected future cash flows after an impairment will no longer be reflected as a prospective yield adjustment through net investment income, but as a reversal of the previous impairment that is recognized immediately. In addition, the guidance requires enhanced disclosures. The Company adopted this standard effective January 1, 2023, using the modified retrospective approach. The adoption did not result in any impact to the retained earnings.

m) Recent accounting pronouncements

In August 2018, the FASB issued ASU 2018-12, Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts. The objective of this guidance is to improve, simplify and enhance the financial reporting of long-duration contracts by providing financial statement users with useful information in a timely and transparent manner. The primary changes include: (1) more timely recognition of assumption changes in the liability for future policy benefits and use of a current rate for the discounting of future cash flows; (2) standardization and improvement in the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts (referred to as market risk benefits); (3) simplification of the amortization of deferred acquisition costs; and (4) enhanced disclosures. As per ASU 2020-11, Financial Services - Insurance (Topic 944): Effective Date and Early Application, the effective date of this standard is fiscal years beginning after December 15, 2024. Certain provisions of the update are required to be adopted on a fully retrospective basis, while others may be adopted on a modified retrospective basis. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the financial statements.

Kindley Re Ltd.

Notes to Financial Statements

For Year Ended December 31, 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022

(expressed in U.S. dollars)

3. Fixed maturity securities

As of December 31, 2023, the Company's fixed maturity securities holdings were approximately \$105.9 million (2022 - \$nil).

The amortized cost, gross unrealized gains and losses, and estimated fair value of fixed maturity securities, available for sale are shown below:

	December 31, 2023				Fair value \$
	Amortized Cost \$	Allowance for Expected Credit losses \$	Gross unrealized gains \$	Gross unrealized losses \$	
Fixed maturity securities, AFS					
Asset-backed securities	65,966,224	-	917,449	(236,895)	66,646,778
Mortgage-backed securities	40,768,402	-	410,170	(1,880,850)	39,297,722
Total	106,734,626	-	1,327,619	(2,117,745)	105,944,500

The following table illustrates the fair value and gross unrealized losses of fixed maturity securities, available for sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	December 31, 2023					
	Less than 12 months		12 months or more		Total	
	Fair value \$	Gross unrealized losses \$	Fair value \$	Gross unrealized losses \$	Fair value \$	Gross unrealized losses \$
Fixed maturity securities, AFS						
Asset-backed securities	12,400,405	(236,895)	-	-	12,400,405	(236,895)
Mortgage-backed securities	23,077,862	(1,880,850)	-	-	23,077,862	(1,880,850)
Total	35,478,267	(2,117,745)	-	-	35,478,267	(2,117,745)

At December 31, 2023, there were 14 (2022 -nil) fixed maturity securities, available for sale, that were in an unrealized loss position. Of this total, none (2022 - Nil) were in an unrealized loss position 12 months or more. These unrealized losses related principally to current market interest rates for similar types of securities and overall economic and financial market conditions which existed during this time. In aggregate, gross unrealized losses as a percentage of amortized cost are 2.0% (2022 - nil%) as at December 31, 2023.

The following table sets forth certain information regarding the investment ratings of the Company's fixed maturity securities portfolio as of December 31, 2023. Investment ratings are obtained from Moody's, Fitch, Standard & Poor's, or other nationally recognized statistical rating organizations for each investment security.

Kindley Re Ltd.

Notes to Financial Statements

For Year Ended December 31, 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022

(expressed in U.S. dollars)

Rating	December 31, 2023		December 31, 2022	
	Fair value \$	Percentage of total	Fair value \$	Percentage of total
Fixed maturity securities, AFS				
AA	5,032,049	4.75%	-	-
A	47,464,809	44.80%	-	-
BBB	51,681,688	48.78%	-	-
BB	1,765,954	1.67%	-	-
Total	105,944,500	100%	-	-

4. Funds withheld assets, derivative assets, embedded derivatives, and future policy benefit reserves

The following table summarizes the Company's funds withheld, future policy benefit reserves and embedded derivatives by accounting classification.

	December 31, 2023		
	Total \$	Life contracts \$	Interest-sensitive life and investment-type contract liabilities \$
Assets:			
Funds withheld assets	2,554,972,353	213,405,010	2,341,567,343
Embedded derivative	13,281,585	(3,099,398)	16,380,983
Liabilities:			
Future policy benefit reserves	2,627,653,842	214,122,142	2,413,531,700
December 31, 2022			
	Total \$	Life contracts \$	Interest-sensitive life and investment-type contract liabilities \$
Assets:			
Funds withheld assets	1,127,264,525	209,423,355	917,841,170
Liabilities:			
Future policy benefit reserves	1,122,729,841	213,018,375	909,711,466

5. Fair value measurements

The fair values of financial instruments have been determined by using available market information and the valuation techniques described below. Considerable judgment is often required in interpreting market data to develop estimates of fair value. The use of different assumptions or valuation techniques may have a material effect on the estimated fair value amounts. The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2023 and 2022.

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Notes to Financial Statements

For Year Ended December 31, 2023 and the period from November 17, 2022 (Date of Incorporation) to December 31, 2022

(expressed in U.S. dollars)

	December 31, 2023		December 31, 2022	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	\$	\$	\$	\$
Assets:				
Fixed maturity securities, available for sale, at fair value	105,944,500	105,944,500	-	-
Embedded derivative assets	13,281,585	13,281,585	-	-
	<u>119,226,085</u>	<u>119,226,085</u>	<u>-</u>	<u>-</u>
Liabilities:				
Fixed index annuities - embedded derivatives*	<u>42,624,544</u>	<u>42,624,544</u>	<u>6,162,709</u>	<u>6,162,709</u>

* Embedded derivatives related to fixed indexed annuities are included in interest-sensitive life and investment-type contract liabilities.

The following tables present the Company's hierarchy for its financial instruments measured at fair value on a recurring basis as of December 31, 2023.

December 31, 2023	Total	Fair value measurements using:		
		Level 1	Level 2	Level 3
	\$	\$	\$	\$
Fixed maturity securities, available for sale, at fair value:				
Asset-backed securities	66,646,778	-	66,646,778	-
Mortgage-backed securities	39,297,722	-	39,297,722	-
Embedded Derivative Assets	13,281,585	-	13,281,585	-
Total assets	<u>119,226,085</u>	<u>-</u>	<u>119,226,085</u>	<u>-</u>
Fixed index annuities - embedded derivatives				
	<u>42,624,544</u>	<u>-</u>	<u>-</u>	<u>42,624,544</u>
December 31, 2022	Total	Fair value measurements using:		
		Level 1	Level 2	Level 3
	\$	\$	\$	\$
Fixed index annuities - embedded derivatives	<u>6,162,709</u>	<u>-</u>	<u>-</u>	<u>6,162,709</u>

Valuations for the Company's fixed maturity securities and derivative assets and liabilities are generally based on third party pricing services for identical or comparable assets or through the use of valuation methodologies using observable market inputs and are classified as Level 2. Based on the typical volumes and the lack of quoted market prices for fixed maturity securities, third party pricing services normally derive the security prices through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available observable market information. Typical inputs include, but are not limited to, reported trades, benchmark yields, issuer

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spreads, bids, offers, credit default assumptions, and/or estimated cash flows and prepayment speed assumptions. If there are no recent reported trades, the third-party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted market rate. Derivatives are valued using quoted market prices for exchange-traded derivatives or third-party broker valuations for over-the-counter derivatives, where all significant valuation inputs are corroborated by market evidence.

As of December 31, 2023, included in future policy benefit reserves are embedded derivative liabilities of \$42,624,544 (2022: \$6,162,709) related to fixed indexed annuities.

Valuations for embedded derivatives related to fixed indexed annuities and included in interest-sensitive life and investment-type contract liabilities include significant unobservable inputs associated with economic and actuarial assumptions for policyholder behaviour.

The valuation technique and significant unobservable inputs used in the determination of fair value of embedded derivative liabilities related to fixed index annuities includes i) policyholder behaviour, reflecting mortality, lapse/surrender, annuitizations and partial withdrawals assumptions ii) non-performance risk reflecting credit and illiquidity spreads in excess of observable inputs such as treasury yields, adjusted for the Company's own credit risk.

There were no transfers between levels for the period ended December 31, 2023.

6. *Deferred acquisition costs*

The following summarizes a roll-forward of deferred acquisition costs.

	December 31, 2023	December 31, 2022
	\$	\$
Balance at the beginning	84,549,735	-
Additions	91,118,004	84,549,735
Amortization and Interest	(7,718,590)	-
Balance at the end	167,949,149	84,549,735

7. *Share capital and additional paid-in capital*

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 period ended December 31, 2023, the Company received \$215,173,805 (2022 - \$157,214,238) by way of additional capital contribution from its shareholder. Refer to note 9 for capital amount still receivable at year end.

8. *Statutory requirements*

The Company operates in Bermuda and is subject to Bermuda's Insurance Account Rules, amendments thereto and related Regulations (the "Act"). Under the Act, the Company is prohibited from declaring or paying in any fiscal year dividends of more than 25% of its prior year's statutory capital and surplus without prior approval from the Bermuda Monetary Authority (BMA). Similarly,

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approval from the BMA is required before any reduction of statutory capital by more than 15% compared to the previous year statutory capital. The primary difference between financial statements prepared for insurance regulatory authorities and statements prepared in accordance with US GAAP is that financial statements prepared for the insurance regulatory authorities apply prudential filters to the US GAAP financial statements in order to derive the Statutory Financial Statements. Prudential filters refer to adjustments to eliminate non-admitted assets including goodwill and other similar intangible assets, not considered admissible for solvency purposes; and to include certain off balance sheet assets and liabilities such as guarantees and other instruments that do not relate to insurance contracts. Bermuda statutory surplus differs from U.S. GAAP also due to a modification that permits the Company to not measure the embedded derivative included within funds withheld coinsurance agreements at fair value.

The Company is licensed as a Class E Long term insurer under the Act and is required to maintain a minimum statutory solvency margin equal to the greater of a minimum solvency margin (MSM) and a percentage of the Enhanced Capital Requirement (ECR). The MSM is equal to the greater of (i) \$8 million (ii) 2% of the first \$500 million of assets plus 1.5% of assets above \$500 million or (iii) 25% of ECR. The ECR is calculated based on a standard risk-based capital model developed by the Bermuda Monetary Authority (BMA). At December 31, 2023 and 2022, the Company's statutory capital and surplus exceeded the minimum solvency margin.

The Bermuda Solvency Capital Requirement (BSCR) employs a standard mathematical model that can relate more accurately the risks taken on by (re)insurers to the capital that is dedicated to their business. Insurers and reinsurers may adopt the standard approach where the BMA prescribes a discount rate reflecting a risk-free rate plus illiquidity premium or the scenario-based approach where the insurer uses the actual portfolio of assets (as well as any projected reinvestments) to determine yields net of default costs. The utilization of the scenario-based approach, in some circumstances, may be subject to approval by the BMA. The Company has initially adopted the standard approach and is working with the BMA towards approval for the utilization of the scenario-based approach by the BMA. At December 31, 2023 and 2022, the Company's enhanced capital requirement (ECR) and target capital level of 120% of ECR have both been met.

9. *Related parties*

As of December 31, 2023, the Company had an outstanding amount receivable from its ultimate shareholder of \$108,293,569 (2022 - \$28,338,511) that related to additional capital contribution due under contractual obligations. This balance is included in accounts receivable at year end and was subsequently received on April 26, 2024.

10. *Concentration of credit risk*

The Company is a party to financial instruments with a concentration of credit risk in the normal course of business. The creditworthiness of any counterparty is evaluated by the Company, taking into account credit ratings assigned by rating agencies. The credit approval process involves an assessment of factors including, among others, the counterparty and country and industry credit exposure limits. Collateral may be required, at the discretion of the Company, on certain transactions based on the creditworthiness of the counterparty and the nature of the liabilities. The areas where significant concentrations of credit risk may exist include fixed maturity securities, funds withheld and reinsurance balances receivable (collectively, "reinsurance assets"). For reinsurance assets, the risk of loss is mitigated by the Company's ability to offset amounts owed to the ceding company with the amounts owed to the Company by the ceding company. Mitigating factors include using

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financially sound custodians, investment grade collateral with further investment guidelines governing the quality of the portfolio, ceding companies with high credit rating, and ability to offset amounts owed to ceding companies with amounts due from them.

Fixed maturity securities

The Company's investments are managed following prudent standards of diversification. The Company attempts to limit its credit exposure by purchasing a diversified pool of high-quality fixed maturity securities to maintain an investment grade average portfolio that can be pledged as collateral or support retained earnings. As of December 31, 2023 and December 31, 2022, the credit ratings of the securities purchased were detailed in Note 3.

Funds withheld assets

The assets are held and managed by the Cedants, well-established reinsurance group and insurance companies with operations in Bermuda and the United States, with A (Excellent) ratings with Stable outlook respectively. In addition, the risk of loss is mitigated by the Company's ability to offset amounts owed to the Cedants with the amounts owed to the Company by the Cedants.

Cash and cash equivalents

Risk of loss with respect to cash and cash equivalents is primarily mitigated by usage of money market funds that have underlying investments in US Treasuries. Cash balances held directly with banks are monitored on a frequent basis and only used for coverage of operating expenses.

11. Audit fees

Audit fees are expensed as incurred. Total Audit fees were \$84,100 and \$78,000 for the years ended December 31, 2023, and 2022, respectively. Audit fees are recorded in "Operating expenses" within the Statements of Operations and Comprehensive Income (Loss). There were no non-audited related fees paid to our auditors with respect to the Company.

12. Subsequent events

The Company has evaluated the effects of events subsequent to December 31, 2023, for recognition and disclosure, through to April 30, 2024, which is the date the financial statements were available to be issued. There were no material events that occurred subsequent to December 31, 2023.