

Audited Financial Statements

**Kuvare Life Re Ltd.**

For the Years Ended December 31, 2023 and 2022

With Report of Independent Auditors

**Kuvare Life Re Ltd.**  
Audited Financial Statements  
For the Years Ended December 31, 2023 and 2022

**Contents**

Report of Independent Auditors.....	2
Audited Financial Statements	
Balance Sheets.....	5
Statements of Operations and Comprehensive Income (Loss).....	6
Statements of Changes in Shareholder's Equity.....	7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9-30



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  
Kuvare Life Re Ltd.

### **Opinion**

We have audited the financial statements of Kuvare Life 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 years then ended, 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 years then ended 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

# Kuvare Life Re Ltd.

## Balance Sheets

As at December 31, 2023 and 2022

(expressed in U.S. dollars)

	December 31, 2023 \$	December 31, 2022 \$
<b>Assets</b>		
Cash and cash equivalents	19,670,881	10,948,745
Restricted cash	225,553,405	164,810,552
Fixed maturity securities, trading, at fair value (notes 3 and 5)	99,151,767	102,682,967
Fixed maturity securities, available for sale, at fair value, net of allowance for credit losses (notes 3 and 5)	2,139,456,599	220,647,262
Other investments (note 3)	41,102,525	33,736,825
Derivative assets (note 5 and 6)	36,677,286	12,987,450
Funds withheld assets (note 4)	2,737,664,843	2,950,414,208
<b>Total cash and invested assets</b>	<b>5,299,277,306</b>	<b>3,496,228,009</b>
Accrued investment income	26,548,225	3,757,914
Accounts receivable (note 12)	86,486,970	182,898,431
Reinsurance recoverable (note 4 and 7)	601,698,241	363,088,866
Deferred acquisition costs (note 8)	66,416,602	77,618,271
<b>Total assets</b>	<b>6,080,427,344</b>	<b>4,123,591,491</b>
<b>Liabilities</b>		
Future policy benefit reserves (note 4)	4,717,071,945	3,016,925,128
Deposit liability (note 4)	295,626,469	374,587,792
Derivative liabilities (note 5 and 6)	71,538,432	-
Embedded derivative liabilities (notes 4 and 5)	377,317,879	438,040,589
Deferred ceding commission	8,147,914	8,236,577
Deferred profit liabilities (note 9)	42,506,505	49,223,160
Funds withheld liabilities (note 4)	581,617,667	361,407,860
Due to affiliates (note 12)	-	35,240,049
Accounts payable and accrued expenses (note 12)	50,653,170	14,506,742
<b>Total liabilities</b>	<b>6,144,479,981</b>	<b>4,298,167,897</b>
<b>Shareholder's equity</b>		
Share capital (note 10)	250,000	250,000
Additional paid-in capital (note 10)	182,119,428	132,119,428
Retained earnings (deficit)	(266,336,892)	(290,596,704)
Accumulated other comprehensive (loss) income	19,914,827	(16,349,130)
<b>Total shareholder's equity</b>	<b>(64,052,637)</b>	<b>(174,576,406)</b>
<b>Total liabilities and shareholder's equity</b>	<b>6,080,427,344</b>	<b>4,123,591,491</b>



Director

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

# Kuvare Life Re Ltd.

## Statements of Operations and Comprehensive Income (Loss)

### For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

	December 31, 2023	December 31, 2022
	\$	\$
<b>Revenues</b>		
Premium income	31,499,556	323,847,363
Investment income from funds withheld	111,113,176	138,338,022
Realized losses from funds withheld	(17,459,106)	(8,529,326)
Derivatives gains (losses) from funds withheld	7,728,138	(6,861,246)
Unrealized gains (losses) on embedded derivative	60,722,710	(643,645,049)
Amortization of deferred profit liability (note 9)	6,716,655	7,724,099
Investment management expenses (note 12)	(15,445,404)	(12,479,200)
Net investment income	128,516,699	16,101,286
Realized losses on investments and derivatives	(6,667,377)	(2,461,211)
Unrealized gains (losses) on investments	9,129,385	(14,185,145)
Unrealized losses on derivatives	(61,636,572)	(2,647,566)
<b>Total revenues (losses)</b>	<b>254,217,860</b>	<b>(204,797,973)</b>
<b>Benefits and Expenses</b>		
Claims and other insurance expenses	101,826,800	334,958,734
Interest credited to policyholder account balances and deposit liability expenses	136,366,525	29,043,643
Amortization of deferred acquisition costs (note 6)	7,767,036	43,630,204
Amortization of deferred commission	1,897,016	2,450,048
Net foreign exchange (gains) losses	(31,979,730)	1,793,430
Operating expenses (note 12)	14,039,102	7,742,520
<b>Net income (loss)</b>	<b>24,301,111</b>	<b>(624,416,552)</b>
<b>Other Comprehensive income (loss)</b>		
Unrealized gains/(losses) on available for sale securities	36,222,658	(16,349,130)
<b>Total other comprehensive income (loss)</b>	<b>36,222,658</b>	<b>(16,349,130)</b>
<b>Total comprehensive income (loss) income</b>	<b>60,523,769</b>	<b>(640,765,682)</b>

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

# Kuvare Life Re Ltd.

## Statements of Changes in Shareholder's Equity For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

	Share capital \$	Additional paid-in- capital \$	Retained earnings (deficit) \$	Accumulated other comprehensive income (loss) \$	Total \$
<b>Balance, December 31, 2021</b>	250,000	132,119,428	333,819,848	-	466,189,276
Net loss	-	-	(624,416,552)	-	(624,416,552)
Other comprehensive loss	-	-	-	(16,349,130)	(16,349,130)
<b>Balance, December 31, 2022</b>	<u>250,000</u>	<u>132,119,428</u>	<u>(290,596,704)</u>	<u>(16,349,130)</u>	<u>(174,576,406)</u>
Adoption of new accounting standard - Current Expected Credit losses	-	-	(41,299)	41,299	-
Capital contributions (note 10)	-	50,000,000	-	-	50,000,000
Net income	-	-	24,301,111	-	24,301,111
Other comprehensive income	-	-	-	36,222,658	36,222,658
<b>Balance, December 31, 2023</b>	<u>250,000</u>	<u>182,119,428</u>	<u>(266,336,892)</u>	<u>19,914,827</u>	<u>(64,052,637)</u>

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



# Kuvare Life Re Ltd.

## Statements of Cash Flows

### For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

	December 31, 2023	December 31, 2022
	\$	\$
<b>Cash flows from operating activities</b>		
Net income (loss)	24,301,111	(624,416,552)
Adjustments to reconcile net income (loss) to net cash flows (used in) generated by operating activities:		
Realized and unrealized gains on investments	59,174,564	19,293,922
Unrealized gains (losses) on embedded derivatives	(60,722,710)	643,645,049
Changes in assets and liabilities:		
Funds withheld assets	132,745,221	(101,130,216)
Accrued investment income	(22,790,311)	(2,445,668)
Accounts receivable	146,411,461	(159,129,138)
Reinsurance recoverable	(238,609,375)	(363,088,866)
Deferred acquisition costs	11,201,669	(29,385,075)
Future policy benefit reserves	1,700,146,817	736,008,747
Due from affiliate (accrued interest)	(1,733,536)	-
Deposit liability	-	(34,206,642)
Deferred ceding commission	(88,663)	(128,121)
Deferred profit liabilities	(6,716,655)	(25,247,994)
Funds withheld liabilities	220,209,807	361,407,860
Accounts payable and accrued expenses	36,146,428	3,885,155
<b>Net cash provided by operating activities</b>	<b>1,999,675,828</b>	<b>425,062,461</b>
<b>Cash flows from investing activities</b>		
Purchase of securities at fair value	(4,551,400)	(54,177,091)
Purchase of securities available for sale	(2,058,765,773)	(236,981,783)
Purchase of derivatives	(21,537,865)	(10,064,140)
Sale of securities at fair value	6,279,291	30,116,136
Sale of securities available for sale	180,240,372	438,473
Sale of derivatives	588,228	-
Change in deposit assets and liability	1,042,821	-
<b>Net cash used in by investing activities</b>	<b>(1,896,704,326)</b>	<b>(270,668,405)</b>
<b>Cash flows from financing activities</b>		
Proceeds from promissory note	-	26,700,000
Repayment of promissory note	(33,506,513)	(27,544,766)
Accrued interest from promissory note	-	1,583,980
<b>Net cash (used in) provided by financing activities</b>	<b>(33,506,513)</b>	<b>739,214</b>
Change in cash, cash equivalents and restricted cash	69,464,989	155,133,270
Cash, cash equivalents and restricted cash - beginning of period	175,759,297	20,626,027
Cash, cash equivalents and restricted cash - end of period	<b>245,224,286</b>	<b>175,759,297</b>
<b>Supplemental disclosures:</b>		
Interest paid on promissory note	2,360,345	1,395,771
Non-cash transaction - Capital contribution from Parent	50,000,000	-

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

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

#### 1. *Organization and corporate structure*

Kuvare Life Re Ltd. ("the Company", we, our or us) was incorporated as a Bermuda exempted company with limited liability on May 27, 2016 and registered as a Class E insurer under The Insurance Act 1978 of Bermuda, effective October 3, 2016.

The Company is solely owned by Kuvare UK Holdings Limited, a holding company incorporated under the laws of England and Wales. Kuvare Holdings LP, ("Kuvare LP") a Cayman Islands exempted limited partnership is the direct shareholder of Kuvare UK Holdings Limited, which is ultimately held by management and long-term investors who have committed capital to Kuvare LP.

The Company has entered into nine separate quota share reinsurance agreements with third party cedants since its inception. The Company's reinsurance transactions have been executed on either a Coinsurance, Funds Withheld or Modified Coinsurance ("modco") basis. Reserves assumed represent annuity products including fixed deferred and fixed indexed annuity contracts, the fixed component of variable annuity contracts, structured settlement contracts and preneed contracts. The Company cedes, on a funds withheld basis, certain of its fixed deferred annuity, fixed indexed annuity and preneed contracts.

#### 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) **Investments**

The Company's investment portfolio comprises fixed maturity securities and other investments in the form of limited partnerships or similar legal structures. These are classified as trading or available-for-sale (AFS) and recorded at fair value through profit and loss or as a component of accumulated other comprehensive income (loss) respectively. Investment income is recognized as it accrues or is legally due. Investment income on fixed maturity securities includes coupon interest, as well as the amortization of any premium and the accretion of any discount. Changes in the fair value of the Company's investments classified as trading and realized gains (losses) on AFS securities are included in net realized and unrealized gains (losses) on investments within the statement of operations. Changes in the fair value of the Company's investments classified as AFS are included in unrealized gains (losses) on AFS securities within other comprehensive income (loss). Realized investment gains and losses are recognized on a first-in first-out ("FIFO") basis.

Short-term investments consist of financial instruments with maturities of greater than three months but less than twelve months when purchased. These are stated at fair value or amortized cost, which approximates fair value.

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.

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

The fair value of certain of the Company's other investments, which principally include private credit and equity investments, is generally established on the basis of the net valuation criteria established by the managers of such investments in accordance with the governing documents of such investments. Certain of the Company's fund managers, fund administrators, or both, are unable to provide final fund valuations as of the Company's current reporting date. The typical reporting lag experienced by the Company to receive a final net asset value report is up to three months.

In circumstances where there is a reporting lag between the current period end reporting date and the reporting date of the latest fund valuation, the Company estimates the fair value of these funds by starting with the prior month or quarter-end fund valuations, adjusting these valuations for actual capital calls, redemptions or distributions and then estimating the return for the current period. In circumstances in which the Company estimates the return for the current period, all information available to the Company is utilized.

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 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. Prior to 2023, the Company evaluated all fixed maturity securities on a quarterly basis, and more frequently when economic conditions warranted additional evaluations, to determine if a write-down should be recorded due to an other- than-temporary impairment ("OTTI"). If an OTTI was required, the credit component of the OTTI of a debt security was recognized in earnings and the remaining portion in other comprehensive income.

#### **c) Funds withheld**

Funds withheld assets represent a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which we act 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.

Funds withheld liabilities represent a payable for amounts contractually withheld by the Company in accordance with reinsurance agreements in which we act as cedant or a modified coinsurer. Although the assets in funds withheld are legally owned by the Company, the assets are separated from the general accounts of the Company and all economic rights and obligations on the assets accrue to the reinsurers.

The underlying agreements contain embedded derivatives as discussed in derivatives.

# Kuvare Life Re Ltd.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

**d) Derivative Instruments**

The Company's derivative instruments are primarily used to hedge certain risks experienced in our ongoing operations, including equity market risk associated with fixed indexed annuity products, and foreign exchange risks to back non-dollar denominated liabilities. Derivatives are instruments that derive their values from underlying asset prices, indices, foreign exchange rates, reference rates and other inputs or a combination of these factors. Derivatives may be privately negotiated contracts, which are usually referred to as over-the-counter, or "OTC," derivatives, or they may be listed and traded on an exchange, or "exchange-traded".

Derivatives are carried at estimated fair value on the balance sheet, with changes in fair value recognized in derivative gains (losses) within the statement of operations. We elect to present any derivatives subject to master netting provisions on a net basis.

**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 reinsurance agreements with the Cedants and Reinsurers results in an embedded derivative as the assets backing the liabilities are retained by the Cedants and the Company respectively, 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) Reinsurance**

The Company assumes and cedes insurance and investment contracts under coinsurance, funds withheld and modco basis. Reinsurance accounting is applied for ceded and assumed transactions when risk transfer provisions have been met. To meet risk transfer requirements, a long-duration reinsurance contract must transfer insurance risk and subject the reinsurer to a reasonable possibility of a significant loss. Those contracts that do not meet risk transfer are accounted for as investment type contracts. In the normal course of business, the Company seeks to diversify risk and limits its overall financial exposure through reinsurance.

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

Assets and liabilities assumed or ceded under coinsurance, funds withheld, or modco are presented gross on the balance sheets.

Revenues consist of policy charges against policyholders' funds for the cost of insurance, administration, surrender charges, actuarial fees, and other fees.

Expenses include interest credited to policy account balances and benefits paid in excess of policy account balances.

Accounting for reinsurance requires the use of assumptions, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. We attempt to minimize our counterparty credit risk through the structuring of the terms of our reinsurance agreements, including the use of trusts, and we monitor credit ratings of counterparties, where relevant, for signs of declining credit quality.

Effective January 1, 2023, in connection with the adoption of a new accounting standard, the Company evaluates reinsurance recoverables for expected credit losses. The Company evaluates each counterparty individually in determining exposure to credit losses. Other factors weighed in determining counterparty exposure includes: (1) Underlying collateral in the form of funds withheld, standby letters of credit and trust accounts or other forms of collateral established for use by the Company to meet the demands of policyholders (2) historical experience with respect to payments (3) established level of regulatory capital and ongoing surveillance of net worth by regulatory agencies, and (4) significant changes in conducting business.

**g) 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 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.

**h) Deposit liability**

The Company has determined that one of its reinsurance agreements does not meet all criteria to be accounted for as reinsurance and therefore the Company has accounted for the contract in accordance with FASB ASC Topic 720 using the deposit method of accounting with the funds withheld balance representing an asset and a separate deposit liability that represents reserves as determined under the reinsurance agreement. At inception, the funds withheld, or deposit liability is measured based on consideration paid or received, less any explicitly identified premiums or fees to be retained by the insurer or reinsurer. Any commission paid is recorded as a contra-liability offsetting the deposit liability and amortized to expense over the life of the business. The amount of the funds withheld or liability and any balances receivable from or payable to the Cedant will be adjusted at subsequent reporting dates by calculating the effective yield on the deposit to reflect actual payments to date and expected future payments with a corresponding credit or charge to interest income or expense.

# Kuvare Life Re Ltd.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

**i) 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 or loss recognition event 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.

Future policy benefit reserves are not reduced for amounts ceded under reinsurance agreements which are reported as reinsurance recoverable on the balance sheet.

**j) Deferred profit liabilities**

At inception of block reinsurance transactions, the excess of the assets received over the sum of the reserves reinsured and ceding commission, is deferred and recognized as a deferred profit liability (DPL). The DPL for life and structured settlement contracts are amortized over the life of the policies in proportion to the expected annuity payments to be made throughout the benefit period. The DPL 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 in income within the statement of operations.

# Kuvare Life Re Ltd.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

## k) 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.

## l) 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.

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

**m) 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.

Restricted cash consists of cash held as part of pledged assets and as additional collateral to further secure the obligations of the Company under the Coinsurance, Funds Withheld and Modified Coinsurance Retrocession Agreements with the Cedants, pursuant to Trust Agreements between the Company and the Cedants. Restricted cash is reported as a separate line item on the balance sheet.

**n) Income taxes**

At the present time, no taxes are levied in Bermuda on the Company's receipts, dividends, capital gains, gifts or net profit.

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 income tax due to the Limited International Footprint Exclusion. As of December 31, 2023, the Company is not considered to be a UPE ("Ultimate Parent Entity") nor a member of an MNE group for Bermuda CIT purposes. For this reason, it has not accrued any deferred tax expense or benefit relating to the CIT as of December 31, 2023.

**o) 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 dates. 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.

**p) 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



# Kuvare Life Re Ltd.

Notes to Financial Statements

**For the years ended December 31, 2023 and 2022**

---

(expressed in U.S. dollars)

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 resulted in an increase in retained deficit of \$41,299.

## **q) Recent accounting pronouncements**

### *Long duration contracts*

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.

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

#### 3. Fixed maturity securities and other investments

As of December 31, 2023, the Company's fixed maturity securities holdings were approximately \$2,238.6 million (2022 - \$323.3 million).

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 \$	
<b>Fixed maturity securities, AFS</b>					
Government & agencies	95,571,390	-	95,117	(739,576)	94,926,931
Corporate bonds	886,969,940	471,755	22,972,570	(10,774,458)	899,639,807
Municipals	10,098,550	-	520,135	(38,746)	10,579,939
Asset-backed securities	706,521,457	167,136	12,514,712	(3,164,468)	716,038,837
Mortgage-backed securities	388,689,125	10,440	9,801,648	(11,538,500)	386,962,713
Collateral loans	15,605,784	-	-	(30,237)	15,575,547
Preferred stocks	15,450,000	-	282,825	-	15,732,825
<b>Total</b>	<b>2,118,906,246</b>	<b>649,331</b>	<b>46,187,007</b>	<b>(26,285,985)</b>	<b>2,139,456,599</b>

	December 31, 2022			Fair value \$
	Amortized Cost \$	Gross unrealized gains \$	Gross unrealized losses \$	
<b>Fixed maturity securities, AFS</b>				
Government & agencies	15,705,080	-	(526,710)	15,178,370
Corporate bonds	80,005,663	90,845	(6,113,906)	73,982,602
Asset-backed securities	93,406,452	149,282	(2,306,132)	91,249,602
Mortgage-backed securities	44,444,088	366	(8,056,766)	36,387,688
Preferred stocks	3,750,000	99,000	-	3,849,000
<b>Total</b>	<b>237,311,283</b>	<b>339,493</b>	<b>(17,003,514)</b>	<b>220,647,262</b>

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

The amortized cost and estimated fair value of fixed maturity securities, available for sale by contractual maturities are shown below:

	December 31, 2023		December 31, 2022	
	Amortized cost \$	Fair value \$	Amortized cost \$	Fair value \$
Due less than one year	79,698,663	79,758,181	-	-
Due after one year through to five years	276,660,987	281,566,260	33,054,376	32,866,228
Due after five years through to ten years	288,733,968	294,831,146	18,291,687	17,378,740
Due after ten years	378,602,046	380,299,462	48,114,680	42,765,004
Asset-backed and mortgage-backed securities <sup>1</sup>	1,095,210,582	1,103,001,550	137,850,540	127,637,290
<b>Total</b>	<b>2,118,906,246</b>	<b>2,139,456,599</b>	<b>237,311,283</b>	<b>220,647,262</b>

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 \$
<b>Fixed maturity securities, AFS</b>						
Government & agencies	-	-	25,132,812	(739,576)	25,132,812	(739,576)
Corporate bonds	156,720,357	(5,146,311)	38,299,042	(5,156,392)	195,019,399	(10,302,703)
Municipal	206,953	(38,746)	-	-	206,953	(38,746)
Asset-backed securities	128,435,540	(2,222,637)	24,469,191	(774,695)	152,904,731	(2,997,331)
Mortgage-backed securities	70,087,919	(2,891,319)	35,353,218	(8,636,741)	105,441,137	(11,528,061)
Collateral loan	15,575,547	(30,237)	-	-	15,575,547	(30,237)
<b>Total</b>	<b>371,026,316</b>	<b>(10,329,250)</b>	<b>123,254,263</b>	<b>(15,307,405)</b>	<b>494,280,579</b>	<b>(25,636,654)</b>

<sup>1</sup> Asset-backed and mortgage-backed securities, generally, have a legal stated maturity that does not correspond to the underlying cash flows and are shown as a separate category as a result.

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

	December 31, 2022					
	Less than 12 months		12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
	\$	\$	\$	\$	\$	\$
<b>Fixed maturity securities, AFS</b>						
Government & agencies	15,178,370	(526,710)	-	-	15,178,370	(526,710)
Corporate bonds	61,135,146	(6,113,906)	-	-	61,135,146	(6,113,906)
Asset-backed securities	69,016,187	(2,306,132)	-	-	69,016,187	(2,306,132)
Mortgage-backed securities	31,399,707	(8,056,766)	-	-	31,399,707	(8,056,766)
Total	176,729,410	(17,003,514)	-	-	176,729,410	(17,003,514)

At December 31, 2023, there were 137 (2022 – 58) fixed maturity securities, available for sale, that were in an unrealized loss position. Of this total, 34 (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 1.2% (2022 – 7.2%) as at December 31, 2023.

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

Rating	December 31, 2023		December 31, 2022	
	Fair value	Percentage of total	Fair value	Percentage of total
	\$		\$	
<b>Fixed maturity securities, AFS</b>				
AAA	176,103,099	8.23%	28,598,513	12.96%
AA	210,449,859	9.84%	28,476,191	12.91%
A	818,543,355	38.26%	66,136,910	29.97%
BBB	870,898,209	40.71%	94,614,913	42.88%
BB	56,966,217	2.66%	2,820,735	1.28%
B	5,777,404	0.27%	-	-
CCC and below	718,456	0.03%	-	-
Total	2,139,456,599	100.00%	220,647,262	100.00%

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

Rating	December 31, 2023		December 31, 2022	
	Fair value \$	Percentage of total	Fair value \$	Percentage of total
<b>Fixed maturity securities, trading</b>				
AAA	229,740	0.23%	807,210	0.79%
AA	183,981	0.19%	332,525	0.32%
A	23,893,316	24.10%	22,201,599	21.62%
BBB	37,100,481	37.42%	42,692,811	41.58%
BB	37,020,219	37.33%	28,287,462	27.55%
B	176,530	0.18%	-	-
CCC and below	547,500	0.55%	-	-
<b>Total</b>	<b>99,151,767</b>	<b>100.00%</b>	<b>102,682,967</b>	<b>100.00%</b>

#### *Contractual maturities summary*

	December 31, 2023 \$	December 31, 2022 \$
<b>Fixed maturity securities, trading</b>		
Due less than one year	293,405	-
Due after one year through to five years	20,240,475	18,956,078
Due after five years through to ten years	7,164,677	6,950,031
Due after ten years	12,426,212	17,356,274
Asset-backed and mortgage-backed securities <sup>1</sup>	59,026,998	59,420,584
<b>Total</b>	<b>99,151,767</b>	<b>102,682,967</b>

The Company holds other investments representing limited partnerships investments. The Company had unfunded commitments totalling \$9,557,027 as at December 31, 2023 (2022 - \$15,992,275). Investments in limited partnerships are generally non-redeemable or subject to lock-up periods on repurchase.

The Company's investments, primarily consisting of private credit and equity strategies, will generally liquidate in combination with the maturity/sale of the underlying investments, or upon redemption following expiration of the Company's lock-up period.

As part of its hedging programme, the Company pledges collateral in the form of securities for certain coinsurance agreements. At December 31, 2023, the fair value of securities pledged was \$126,701,192 (2022 - nil) and are included in fixed maturity securities, available for sale, at fair value on the balance sheet.

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

#### 4. Funds withheld, reinsurance recoverable, deposit liabilities, future policy benefit reserves and embedded derivatives

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

	December 31, 2023			
	Total	Deposit Accounting	Life and structured settlement	Interest sensitive life and investment type
	\$			
Assets:				
Funds withheld assets	2,737,664,843	306,787,782	1,377,493,885	1,053,383,176
Reinsurance Recoverable	601,698,241	-	218,399,713	383,298,528
Liabilities:				
Future policy benefit reserves	4,717,071,945	-	1,353,790,141	3,363,281,804
Deposit liability	295,626,469	295,626,469	-	-
Embedded derivative liabilities	377,317,879	39,302,140	175,554,144	162,461,595
Funds withheld liabilities	581,617,667	-	213,405,010	368,212,657
December 31, 2022				
	Total	Deposit Accounting	Life and structured settlement	Interest sensitive life and investment type
	\$			
Assets:				
Funds withheld assets	2,950,414,208	386,791,927	1,393,722,663	1,169,899,618
Reinsurance Recoverable	363,088,866	-	213,651,535	149,437,331
Liabilities:				
Future policy benefit reserves	3,016,925,128	-	1,353,964,153	1,662,960,975
Deposit liability	374,587,792	374,587,792	-	-
Embedded derivative liabilities	438,040,589	60,334,712	191,108,240	186,597,637
Funds withheld liabilities	361,407,860	-	209,423,355	151,984,505

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

#### 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.

	December 31, 2023		December 31, 2022	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	\$	\$	\$	\$
<b>Assets:</b>				
Fixed maturity securities, trading, fair value	99,151,767	99,151,767	102,682,967	102,682,967
Fixed maturity securities, AFS, fair value	2,139,456,599	2,139,456,599	220,647,262	220,647,262
Derivative assets	36,677,286	36,677,286	12,987,450	12,987,450
	<u>2,275,285,652</u>	<u>2,275,285,652</u>	<u>336,317,679</u>	<u>336,317,679</u>
<b>Liabilities:</b>				
Fixed index annuities - embedded derivatives*	96,360,884	96,360,884	24,730,082	24,730,082
Embedded derivative liabilities	-	-	438,040,589	438,040,589
Derivative liabilities	71,538,432	71,538,432	-	-
	<u>167,899,316</u>	<u>167,899,316</u>	<u>462,770,671</u>	<u>462,770,671</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 and 2022.

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

December 31, 2023	Fair value measurements using:				Net asset value \$
	Total \$	Level 1 \$	Level 2 \$	Level 3 \$	
Fixed maturity securities, trading, fair value:					
Government & agencies	183,981	-	183,981	-	-
Corporate bonds	30,132,861	-	30,132,861	-	-
Asset-backed securities	47,581,444	-	47,581,444	-	-
Mortgage-backed securities	11,445,554	-	11,445,554	-	-
Collateral loans	9,807,927	-	9,807,927	-	-
Fixed maturity securities, AFS, fair value:					
Government & agencies	94,926,931	-	94,926,931	-	-
Corporate bonds	899,639,807	-	899,639,807	-	-
Municipal	10,579,939	-	10,579,939	-	-
Asset-backed securities	716,038,837	-	716,038,837	-	-
Mortgage-backed securities	386,962,713	-	386,962,713	-	-
Collateral loans	15,575,547	-	15,575,547	-	-
Preferred stocks	15,732,825	-	15,732,825	-	-
Other investments	41,102,525	-	-	5,737,894	35,364,631
Derivative assets	36,677,286	-	36,677,286	-	-
<b>Total assets</b>	<b>2,316,388,177</b>	<b>-</b>	<b>2,275,285,652</b>	<b>5,737,594</b>	<b>35,364,631</b>
Fixed index annuities - embedded derivatives	96,360,884	-	-	96,360,884	-
-Derivative liabilities	71,538,432	-	71,538,432	-	-
Embedded derivative liabilities	377,317,879	-	377,317,879	-	-
<b>Total liabilities</b>	<b>545,217,195</b>	<b>-</b>	<b>545,217,195</b>	<b>-</b>	<b>-</b>



# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

December 31, 2022	Total \$	Fair value measurements using:		
		Level 1 \$	Level 2 \$	Level 3 \$
Fixed maturity securities, trading, fair value:				
Government & agencies	175,101	-	175,101	-
Corporate bonds	34,512,543	-	34,512,543	-
Municipals	213,379	-	213,379	-
Asset-backed securities	47,869,246	-	47,869,246	-
Mortgage-backed securities	11,551,338	-	11,551,338	-
Collateral loans	8,361,360	-	8,361,360	-
Fixed maturity securities, AFS, fair value:				
Government & agencies	15,178,370	-	15,178,370	-
Corporate bonds	73,982,602	-	73,982,602	-
Asset-backed securities	91,249,602	-	91,249,602	-
Mortgage-backed securities	36,387,688	-	36,387,688	-
Preferred stocks	3,849,000	-	3,849,000	-
Derivative assets	12,987,450	-	12,987,450	-
<b>Total assets</b>	<b>336,317,679</b>	<b>-</b>	<b>336,317,679</b>	<b>-</b>
Fixed index annuities - embedded derivatives	24,730,082	-	-	24,730,082
Embedded derivative liabilities	438,040,589	-	438,040,589	-
<b>Total liabilities</b>	<b>462,770,671</b>	<b>-</b>	<b>438,040,589</b>	<b>24,730,082</b>

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 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.

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.

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

As of December 31, 2023, included in future policy benefit reserves are embedded derivative liabilities of \$96,360,884 (2022: \$24,730,082) related to fixed indexed annuities. Net amounts included in claims and other insurance expenses for the year amounted to \$33,852,447 (2022: \$7,814,860).

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 based on our public credit rating.

#### Level 3 Financial Instruments

The following table is a reconciliation for all level 3 financial instruments measured at fair value on a recurring basis, for the year ended December 31, 2023.

	December 31, 2023	December 31, 2022
	\$	\$
<b>Other investments</b>		
Balance at the beginning of year	4,828,800	-
Realized and unrealized gains (losses) included in net income	570,074	-
Purchases	339,020	-
Sales and Settlements	-	-
Net transfers into (out of) Level 3	-	-
Balance at the end of year	<u>5,737,894</u>	<u>-</u>
Change in unrealized gains (losses) included in net income, relating to instruments held at the end of the period	<u>570,074</u>	<u>-</u>

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

#### 6. *Derivative instruments*

None of the Company's derivatives qualify for hedge accounting, thus, any change in the fair value of the derivatives is recognized in the statements of operations. The fair value of the derivative instruments, presented in the balance sheets as of December 31, 2023 and 2022 are as follows:

	Year Ended December 31, 2023	Year Ended December 31, 2022
	\$	\$
<b>Assets:</b>		
Call Options	36,677,286	11,629,356
Cross Currency Swaps	-	1,358,094
<b>Liabilities:</b>		
Cross Currency Swaps	71,538,432	-

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

The changes in fair value of derivatives included in the statements of operations as unrealized gains (losses) on derivatives:

	Year Ended December 31, 2023	Year Ended December 31, 2022
	\$	\$
Changes in fair value of derivatives:		
Call options	11,656,234	(4,005,660)
Cross Currency Swaps	(73,292,806)	(1,358,094)
	<u>61,636,572</u>	<u>2,647,566</u>

The notional amount and fair value of our options and swaps by counterparty and each counterparty's current credit rating are as follows:

	Credit rating (S&P)	Fair value \$	Notional Amount \$
Wells Fargo	A	3,828,081	48,916,143
Royal Bank of Canada	AA	13,427,181	258,075,193
Bank of Montreal	A	(52,116,408)	1,371,047,829

#### 7. Reinsurance

The Company has agreements that provide for reinsurance of certain policy-related risks. Under the agreements, premiums, contract charges, interest credited to policyholder funds, policy benefits and substantially all expenses are reinsured. The Company cedes on a funds withheld basis, a portion of the fixed deferred annuity, fixed indexed annuity and preneed contracts. At December 31, 2023 and 2022, the Company had reinsurance recoverables of \$601,698,241 and \$363,088,866, due from the reinsurer. The reinsurance recoverables are supported by a funds withheld of approximately \$581,617,667 and \$361,407,860 as of December 31, 2023 and 2022, respectively.

The reduction of premiums, claims and other insurance expenses and interest credited as a result of reinsurance transactions were as follows:

	Year Ended December 31, 2023	Year Ended December 31, 2022
	\$	\$
Premiums	31,499,556	-
Claims and other insurance expenses	34,237,275	-
Interest credited	38,264,859	-

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

#### 8. *Deferred acquisition costs*

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

	Year Ended December 31, 2023	Year Ended December 31, 2022
	\$	\$
Balance at the beginning of year	77,618,271	48,233,196
Additions	6,882,280	102,973,890
Ceded Reinsurance	(10,316,913)	(29,958,611)
Amortization	(7,767,036)	(43,630,204)
Balance at the end of year	<u>66,416,602</u>	<u>77,618,271</u>

#### 9. *Deferred profit liabilities*

The following summarizes a roll-forward of deferred profit liabilities.

	Year Ended December 31, 2023	Year Ended December 31, 2022
	\$	\$
Balance at the beginning of year	49,223,160	74,471,154
Additions	-	1,940,933
Change in estimate	-	(19,464,828)
Amortization	(6,716,655)	(7,724,099)
Balance at the end of year	<u>42,506,505</u>	<u>49,223,160</u>

#### 10. *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 year ended December 31, 2023, the Company received \$50,000,000 (2022 - \$nil) by way of additional capital contribution from its shareholder. Refer to note 12 for capital amount still receivable at year end.

#### 11. *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, 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

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

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 BSCR model or, where an insurer or reinsurer believes that its own internal model better reflects the inherent risk of its business, an in-house model approved by the BMA. The Company has adopted the standard BSCR model. 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.

#### 12. *Related parties*

As of December 31, 2023 included in accounts payable and accruals is an amount of \$5,310,889 (2022: \$3,008,591) relating to accrued cost sharing fees payable to Kuvare US Holdings, Inc ("KUS"), a Delaware corporation, for certain services provided to the Company at agreed costs and fees pursuant to a Master Services Agreement by and among Kuvare US Holdings, Inc., KBR, the Company, Kuvare Asset Management Ltd. (previously called Kuvare Insurance Services Ltd.) and other parties. Amounts recognised in operating expenses and investment management expenses in the period amounted to \$23,595,581 (2022: \$13,322,200).

As of December 31, 2023, the Company had an outstanding amount receivable from its ultimate shareholder of \$50,000,000 (2022 - \$nil) that related to additional capital contribution. This balance is included in accounts receivable at year end and was subsequently received on April 26, 2024.

As of December 31, 2023 included in accounts receivable is an amount of \$nil (2022: \$ 501,644) relating to accrued cost sharing fees payable from Kuvare Bermuda Re Ltd ("KBR"), a Bermuda regulated company under common control, for certain services provided by the Company at agreed costs and fees pursuant to a Master Services Agreement by and among KBR and the Company. Amounts recognised in operating expenses in the period amounted to \$nil (2022: \$501,644).

The Company entered into borrowing agreements with KUS and KBR. Borrowings under these agreements accrue interest at Libor, plus the relevant lending rate applicable to the parent company, plus 1% per annum and are due up to 10 years from the date of the agreements. As of December 31, 2023, the total amount due to affiliates under these agreements amounted to \$nil and \$nil (2022: \$269,737 and \$34,970,312) to KUS and KBR respectively. Interest expensed in the period amounted to \$626,809 (2022: \$2,979,751).

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

As of December 31, 2023, included in funds withheld, are surplus notes to the principal amounts of \$10,000,000 and \$5,000,000 respectively, from GILICO and United Life Insurance Company ("ULIC"), both Iowa regulated insurers that are under common control. The surplus notes accrue interest at 6% and 5.5% per annum and mature on December 31, 2049 and June 30, 2051 respectively. Amounts included in investment income from funds withheld for the year amounted to \$875,000 (2022: \$875,000).

Effective April 2020, the Company entered into a stop-loss arrangement with a related party. Premium of \$nil (2022: \$0.3 million) is recognised in income for the year. The treaty concluded in the prior year. The Company evaluates the expected future cash flows and would establish a reserve to the extent supported by future cash-flows.

#### 13. *Commitments and Contingencies*

The Company has undrawn letters of credit for \$40,000,000 as of December 31, 2023 (2022: \$20,000,000) issued for the benefit our reinsurance cedants that expires March 29, 2024 and December 22, 2024.

#### 14. *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, derivatives, funds withheld and reinsurance balances recoverable and 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 and reinsuring companies with the amounts owed to the Company from them. Mitigating factors include using financially sound custodians, investment grade collateral with further investment guidelines governing the quality of the portfolio, ceding companies with high credit rating, reinsurance agreements on a funds withheld basis and ability to offset amounts owed to ceding and reinsuring 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.

##### *Other investments*

Certain of the Company's limited partnership investments are invested in alternative credit strategies. The Company manages its credit exposure by investing with high quality managers with proven track records. In certain instances, these alternative credit strategies have been rated investment-grade by Nationally Recognized Statistical Ratings Organizations (NRSROs).

# Kuvare Life Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2023 and 2022

---

(expressed in U.S. dollars)

#### *Derivative assets and liabilities*

The Company diversifies the counterparties to its derivative contracts to reduce credit exposure, in addition to entering transactions with creditworthy counterparties. Where possible, we maintain collateral arrangements and use master netting agreements that provide for a single net payment from one counterparty to another at each due date and upon termination.

#### *Funds withheld assets*

The assets are held and managed by the Cedants, well-established reinsurance groups and insurance companies with operations in Bermuda and the United States with A ratings (Excellent). 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.

#### *Reinsurance recoverable*

The underlying assets are held and managed by the Company. We mitigate credit risk by requiring collateral and credit enhancements in various forms, including structuring the terms of our reinsurance agreements on a funds withheld basis and the use of trusts. In addition, the risk of loss is mitigated by the Company's ability to offset amounts owed to the Reinsurers with the amounts owed to the Company by the Reinsurers.

#### *Cash, cash equivalents and restricted cash*

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.

#### *Accounts receivable*

Risk of loss with respect to receivables is managed primarily by the Company's strategy to work with highly rated counterparties. The reinsurance cedants of the company are generally rated A or higher by third party rating agencies. Further, non-delivery of reinsurance premium would generally constitute a breach of contract by these carriers which would lead to termination of these treaties.

### **15. Audit fees**

Audit fees are expensed as incurred. Total Audit fees were \$226,800 and \$200,600 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.

### **16. 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.