Ivy Re Limited

Consolidated financial statements

As of December 31, 2023 and 2022

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of independent auditors

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Ivy Re Limited

Opinion

We have audited the consolidated financial statements of Ivy Re Limited and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income (loss), comprehensive income (loss), shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, effective January 1, 2023, the Company adopted Accounting Standards Update No. 2018-12, "*Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts, as amended*", using the full retrospective approach with a transition date of January 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date 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 from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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.

Deloitte & Touche LLP

April 18, 2024

IVY RE LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

		December 31,		
		2023		2022
($ in thousands)				
Assets				
Investments:				
Fixed maturity securities, available-for-sale, at fair value (amortized cost: $101,605 and $124,566, respectively.)	$	86,800	$	103,290
Funds withheld receivable at interest (portion at fair value: $(2,059,313) and $(2,607,440), respectively.)		12,683,333		14,001,061
Other investments at fair value		23,415		8,151
Total investments		**12,793,548**		**14,112,502**
Cash and cash equivalents		92,103		32,423
Accrued investment income		1,011		984
Reinsurance receivable		717,644		644,693
Cost of reinsurance assets		153,737		168,233
Other assets		10,006		22,576
Total assets	**$**	**13,768,049**	**$**	**14,981,411**
Liabilities				
Policy liabilities (portion at fair value: $176,498 and $139,577, respectively.)	$	13,722,683	$	15,091,415
Other liabilities		17,322		64,774
Reinsurance liabilities		22,103		33,262
Total liabilities	**$**	**13,762,108**	**$**	**15,189,451**
Commitment and contingencies (Note 13)				
Shareholder's equity				
Common stock, $1 par value, 250,000 shares authorized, issued and outstanding	$	250	$	250
Additional paid-in capital		668,440		784,440
Retained deficit		(1,756,726)		(2,299,280)
Accumulated other comprehensive income		1,093,977		1,306,550
Total shareholder's equity		**5,941**		**(208,040)**
Total liabilities and shareholder's equity	**$**	**13,768,049**	**$**	**14,981,411**

See accompanying notes to consolidated financial statements.

IVY RE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Years ended December 31,	
	2023	2022
($ in thousands)		
Revenues		
Premiums	$ 129,972	$ 146,744
Policy fees	1,453	1,138
Net investment income	704,607	650,399
Net investment-related gains (losses)	534,346	(2,664,114)
Total revenues	**1,370,378**	**(1,865,833)**
Benefits and expenses		
Policy benefits and claims (remeasurement loss on policy liabilities: $2,507.)	469,361	307,486
Amortization of cost of reinsurance assets	14,495	33,851
Insurance expenses	70,685	77,975
Management fees, net of Sponsor refunds	15,143	16,769
General and administrative expenses	3,024	2,640
Total benefits and expenses	**572,708**	**438,721**
Income (loss) before income taxes	797,670	(2,304,554)
Income tax expense	3,116	—
Net income (loss)	**$ 794,554**	**$ (2,304,554)**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years ended December 31,	
	2023	2022
($ in thousands)		
Net income (loss)	**$ 794,554**	**$ (2,304,554)**
Other comprehensive (loss) income:		
Unrealized gains (losses) on securities and other investments for the period	4,380	(18,796)
Less: reclassification adjustment for losses included in net income	(2,091)	(1,253)
Unrealized gains (losses) on available-for-sale securities and other investments	**6,471**	**(17,543)**
Effect of changes in the discount rates used to measure limited-payment long duration insurance contracts	(219,044)	1,182,127
Other comprehensive (loss) income	**(212,573)**	**1,164,584**
Comprehensive income (loss)	**$ 581,981**	**$ (1,139,970)**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

($ in thousands)	Common stock	Additional paid-in capital	Retained deficit	Accumulated other comprehensive income	Total shareholder's equity
Balance as of December 31, 2021 (as previously reported)	**$ 250**	**$ 921,313**	**$ 67,023**	**$ (3,734)**	**$ 984,852**
Cumulative effect adjustment from adoption of accounting changes (see Note 2, “Significant accounting policies and practice”.)	—	—	38,979	145,700	184,679
Balance as of December 31, 2021 (as revised)	**250**	**921,313**	**106,002**	**141,966**	**1,169,531**
Net loss	—	—	(2,304,554)	—	(2,304,554)
Other comprehensive income	—	—	—	1,164,584	1,164,584
Return of capital	—	(136,873)	—	—	(136,873)
Dividends	—	—	(100,728)	—	(100,728)
Balance as of December 31, 2022 (as revised)	**$ 250**	**$ 784,440**	**$ (2,299,280)**	**$ 1,306,550**	**$ (208,040)**
Balance as of December 31, 2022 (as previously reported)	**$ 250**	**$ 784,440**	**$ (2,366,227)**	**$ (21,277)**	**$ (1,602,814)**
Cumulative effect adjustment from adoption of accounting changes (see Note 2, “Significant accounting policies and practice”.)	—	—	66,947	1,327,827	1,394,774
Balance as of December 31, 2022 (as revised)	**250**	**784,440**	**(2,299,280)**	**1,306,550**	**(208,040)**
Net income	—	—	794,554	—	794,554
Other comprehensive loss	—	—	—	(212,573)	(212,573)
Return of capital	—	(116,000)	—	—	(116,000)
Dividends	—	—	(252,000)	—	(252,000)
Balance as of December 31, 2023	**$ 250**	**$ 668,440**	**$ (1,756,726)**	**$ 1,093,977**	**$ 5,941**

See accompanying notes to consolidated financial statements.

IVY RE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,			
	2023		2022	
($ in thousands)				
Cash flows from operating activities				
Net income (loss)	$	794,554	$	(2,304,554)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Changes in fair value of equity fixed maturity securities and other investments		(14,903)		73
Net investment-related losses		2,091		89,071
Change in fair value of derivatives and other derivative-related activity		(484,609)		2,494,639
Net accretion and amortization		7,128		(1,686)
Interest credited to policy account balances less policy fees		230,063		214,129
Deferred income tax expense		3,098		—
Changes in operating assets and liabilities:				
Change in premiums, notes receivable, and reinsurance receivable, net of reinsurance premiums payable		1,713,113		1,340,601
Change in cost of reinsurance assets		1,524		—
Change in accrued investment income		(28)		427
Change in policy liabilities and accruals, net		(518,954)		(587,997)
Other operating activities, net		3,881		(91,374)
Net cash provided by operating activities	**$**	**1,736,958**	**$**	**1,153,329**
Cash flows from investing activities				
Proceeds from disposals of available-for-sale fixed maturity securities	$	19,019	$	24,286
Purchase of other investments		(360)		(8,224)
Other investing activities, net		(29)		—
Net cash provided by investing activities	**$**	**18,630**	**$**	**16,062**
Cash flows from financing activities				
Additions to contractholder deposit funds	$	80,159	$	112,582
Withdrawals from contractholder deposit funds		(1,408,067)		(1,052,340)
Return of capital to parent		(116,000)		(136,873)
Dividends paid to shareholder		(252,000)		(100,728)
Payment of placement fees		—		(7,765)
Net cash used in financing activities	**$**	**(1,695,908)**	**$**	**(1,185,124)**
Net change in cash, cash equivalents and restricted cash	**$**	**59,680**	**$**	**(15,733)**
Cash, cash equivalents and restricted cash, beginning of period	$	32,423	$	48,156
Cash, cash equivalents and restricted cash, end of period	**$**	**92,103**	**$**	**32,423**
Supplemental cash flow information				
Income taxes payments	$	18	$	—

See accompanying notes to consolidated financial statements.

(1) Nature of business and basis of presentation

Ivy Re Limited (together with its subsidiaries, “Ivy Re”, the “Company,” we, our, or us) was incorporated on March 6, 2020, and is a Bermuda exempted limited liability company registered under the Insurance Act 1978 as a Class E insurer, as amended, to be able to write long-term (life) reinsurance business. The Company primarily serves the reinsurance marketplace as a reinsurer for transactions sourced, negotiated and underwritten by subsidiaries of Global Atlantic Limited (Delaware) (f/k/a Global Atlantic Financial Limited) (“the Sponsor” or “Global Atlantic”). The reinsurance solutions include primarily reinsurance of life and retirement blocks and pension risk transfer. The Company operates independently, leveraging Global Atlantic’s proven reinsurance expertise. Through the co-investment framework, the Company accesses an attractive opportunity to deploy investor capital while assisting life and annuity companies in addressing capital, risk management and strategic objectives. In 2021, the Company deployed the investor committed capital in full. Prior to deploying all of its capital commitments, the Company served the market by providing reinsurance solutions including reinsurance of life and retirement in-force blocks, as well as pension risk transfer reinsurance.

The Company is a wholly owned subsidiary of Ivy FinCo LLC, a Cayman Islands limited company (“FinCo.”) FinCo is wholly owned by a Cayman Islands limited company, Ivy MidCo LLC (“MidCo”) which is a direct subsidiary of Ivy UK Co-Invest Vehicle Limited, a private company incorporated under the laws of England and Wales (“UKCo.”) UKCo is 90% owned by Ivy Co-Invest Vehicle LLC, a Cayman Islands limited liability company (“Co-Invest,") and 10% owned by third party Shareholders. Equity in Co-Invest is 100% owned by third party Shareholders and held in membership interests. As such, the Company is a majority owned subsidiary of Co-Invest. UKCo’s shares of the Company represent 100% of the voting rights and economic interests in the Company as of December 31, 2023. In 2022, the Company also established two wholly-owned subsidiaries; a Bermuda limited liability company, Ivy Investment Holdings BDA LLC, and a Delaware limited liability company, Ivy Investment Holdings DE LLC.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which differ in certain respects to those followed in reports to the Bermuda Monetary Authority (the “BMA”).

The consolidated financial statements reflect the reinsurance transactions entered into between the Company and certain of the Sponsor Insurance Subsidiaries. These reinsurance transactions comprise pension risk transfer and block reinsurance transactions, as described in Note 11 — “Reinsurance.”

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities as of the date of the consolidated financial statements, and the amounts of revenues and expenses recognized during the reporting period. Amounts based on such estimates involve numerous assumptions subject to varying and potentially significant degrees of judgment and uncertainty, particularly related to the future performance of the underlying business. Actual experience could materially differ from these estimates and assumptions. The most significant estimates are those used in determining valuation of investments, funds withheld receivable at interest, policy liabilities, and embedded derivatives in policy liabilities.

The consolidated financial statements include the results of operations and financial position of the Company and all other entities in which the Company has a controlling financial interest. All material intercompany accounts and transactions have been eliminated in consolidation.

(2) Significant accounting policies and practice

The following are the Company's significant accounting policies with references to notes providing additional information on such policies:

Accounting policy	Note
Investments	3, 4 and 5
Funds withheld receivable at interest (host contract and embedded derivative)	3, 4 and 5
Policy liabilities	7
Reinsurance	11

Investments

In the normal course of business, the Company enters into reinsurance transactions with Sponsor Insurance Subsidiaries and invests surplus assets in various types of investments.

Investments include the following: available-for-sale ("AFS") fixed maturity securities, funds withheld receivable at interest ceded by Sponsor Insurance Subsidiaries, and other investments.

AFS fixed maturity securities

The Company primarily accounts for its fixed maturity securities (including bonds and structured securities) as AFS. AFS fixed maturity securities are generally recorded on a trade-date basis and are carried at fair value. Impairment associated with AFS fixed maturity securities is recognized as an allowance for credit losses. The allowance for credit losses is established either by a charge to net investment-related gains (losses) in the consolidated statements of income (loss), for securities identified as credit impaired after purchase, or by a gross-up recognition of an initial allowance for purchased credit deteriorated ("PCD") securities.

PCD securities are those purchased by the Company that were assessed at acquisition as having experienced a more-than-insignificant deterioration in credit quality since their origination. The Company considers an AFS fixed maturity security to be PCD if there are indicators of a credit loss at the acquisition date or, in the case of structured securities, if there is a significant difference between contractual cash flows and expected cash flows at acquisition. The initial amortized cost for a PCD security equals the purchase price plus the initial allowance for credit losses. The initial allowance for credit losses is determined using a discounted cash flow method based on the best estimate of the present value of cash flows expected to be collected. After purchase, the accounting for a PCD security is generally consistent with that applied to all other securities.

Unrealized gains and losses on AFS fixed maturity securities, net of tax and insurance intangible amortization, are reported in accumulated other comprehensive income in the consolidated balance sheets. Realized investment gains and losses are recognized on a first-in first-out basis and are reported in net investment-related gains (losses) in the consolidated statements of income (loss). The amortized cost of fixed maturity securities is adjusted for impairment charge-offs, amortization of premiums and accretion of discounts. Such amortization and accretion is calculated using the effective yield method and included in net investment income in the consolidated statements of income (loss).

For structured securities, the Company recognizes interest income utilizing a constant effective yield based on estimated cash flows generated from internal models utilizing interest rate, default and prepayment assumptions. Effective yields for structured securities that are not of high credit quality are recalculated and adjusted prospectively based on changes in expected undiscounted future cash flows, after consideration of any appropriate recognition or release of an allowance for credit losses. For structured securities that are of high credit quality, effective yields are recalculated based on payments received and updated prepayment expectations, and amortized cost is adjusted to the amount that would have existed had the new effective yield been applied since acquisition with a corresponding charge or credit to net investment income. Prepayment fees are recorded when earned in net investment income in the consolidated statements of income (loss).

The Company generally suspends accrual of interest for securities that are more than 90 days past due and reverses any related accrued interest to net investment income in the consolidated statements of income (loss). When a security is in non-accrual status, coupon payments are recognized as interest income as cash is received, subject to consideration as to the overall collectibility of the security. A security is returned to accrual status when the Company determines that the collection of amounts due is probable. The allowance for credit losses excludes accrued interest from the amortized cost basis for which losses are estimated.

Funds withheld receivable at interest

Funds withheld receivable at interest represent receivables for amounts contractually withheld by the ceding company (i.e., a Sponsor Insurance Subsidiary), in accordance with reinsurance agreements in which the Company acts as the reinsurer. While the assets in funds withheld and modified coinsurance are legally owned by the ceding company, the assets are separately identified and held in a trust for the benefit of the Company. All economic rights and obligations on the assets accrue to the Company. The assets in the funds withheld segregated accounts are typically managed by an investment manager, who periodically settles the total return from those assets.

The reinsurer has an indirect exposure to the credit risk of the underlying assets of the funds withheld or modified coinsurance account. As a result, funds withheld coinsurance and modified coinsurance agreements contain embedded derivatives, which are required to be separated from their host contracts and measured at fair value. The host contract relates to the reinsurance receivable from ceding Sponsor Insurance Subsidiaries under the funds withheld arrangement underlying the reinsurance transactions. The host contract at inception of the reinsurance arrangement represented the fair value of the non-cash consideration. The embedded derivative represents the difference between the fair value of the underlying assets and the carrying value of the host contract at the balance sheet date. The fair value of the embedded derivative is included in the funds withheld receivable at interest on the consolidated balance sheets, with changes in fair value recorded in net investment-related gains (losses) in the consolidated statements of income (loss).

Funds withheld receivable at interest include the following: fixed maturity securities, mortgage and other loan receivables, policy loans, other investments and derivative instruments.

Derivative instruments held within the funds withheld at interest are primarily used to hedge certain risks, including interest rate risk and equity market risk, and to a lesser extent foreign exchange risks. Derivative instruments are generally recognized at estimated fair value in funds withheld receivable at interest on the consolidated balance sheets.

Other investments

Other investments in the consolidated balance sheets include the Company's investments in investment partnerships or limited liability companies, for which the Company does not have voting control or power to direct activities. These investments are accounted for using the equity method of accounting unless the Company's interest is so minor that it has virtually no influence over partnership operating or financial policies. The equity method of accounting requires that the investments be initially recorded at cost and the carrying amount of the investment subsequently be adjusted to recognize the Company's share of the earnings and losses of the investee. Where there is a difference between the cost of the investment and the Company's proportionate share of the equity method investee's net assets, this basis difference is accreted to net investment income over the life of the underlying assets. In applying the equity method, the Company uses financial information provided by the investee, generally on a one to three month lag due to the timing of the receipt of related financial statements.

The income from the Company's equity method investments is included in net investment income in the consolidated statements of income (loss). In limited circumstances, the Company elects to apply the fair value option to investment partnerships or limited liability companies, which are carried at fair value with unrealized gains and losses reported in net investment-related gains (losses) in the consolidated statements of income (loss). The contributions to and distributions from investment partnerships or limited liability companies are classified as investing activities within the consolidated statements of cash flows.

Investment credit losses and impairment

AFS fixed maturity securities

One of the significant estimates related to AFS securities is the evaluation of those investments for credit losses. The evaluation of investments for credit losses is a quantitative and qualitative quarterly process that is subject to risks and uncertainties and involves significant estimates and judgments by management. Changes in the estimates and judgments used in such analysis can have a significant impact on the Company's consolidated statements of income (loss). Considerations relevant to the evaluation of credit losses may include the severity of any loss position, as well as changes in market interest rates, changes in business climate, management changes, litigation, government actions, and other similar factors that may impact an issuer's ability to meet current and future principal and interest obligations. Indicators of credit impairment may also include changes in credit ratings, the frequency of late payments, pricing levels and deterioration in any, or a combination of, key financial ratios, financial statements, revenue forecasts and cash flow projections.

For AFS fixed maturity securities in an unrealized loss position, the Company first considers the intent to sell a security, or whether it is more-likely-than-not that it will be required to sell the security, before the recovery of its amortized cost. If the Company intends to sell an AFS fixed maturity security with an unrealized loss or it is more-likely-than-not that it will be required to sell an AFS fixed maturity security with an unrealized loss before recovery of its amortized cost basis, the amortized cost is written down to fair value and a corresponding charge is recognized to net investment-related gains (losses).

For AFS fixed maturity securities in an unrealized loss position that the Company does not intend to sell, and will not be required to sell, the Company bifurcates the impairment into two components: credit impairment and non-credit impairment. Credit impairments are measured as the difference between the security's cost or amortized cost and its estimated recoverable value, which is the present value of its expected future cash flows discounted at the current effective interest rate. The estimated recoverable value is subject to a floor equal to the fair value of the security. The remaining difference between the security's fair value and the recoverable value, if any, is the non-credit impairment. Credit impairments are recognized in the allowance for credit losses on AFS fixed maturity securities, which is established via a charge to net investment-related gains (losses) in the consolidated statements of income (loss) and non-credit impairments are charged to accumulated other comprehensive income in the consolidated balance sheets.

In determining the estimated recoverable value, the review of expected future cash flows for structured securities includes assumptions about key systemic risks (e.g., unemployment rates, housing prices) and loan-specific information (e.g., delinquency rates, loan-to-value ratios). Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third parties, along with assumptions and judgments about the future performance of the underlying collateral. For corporate and government bonds the recoverable value is determined using cash flow estimates that consider facts and circumstances relevant to the security and the issuer, including overall financial strength and secondary sources of repayment as well as pending restructuring or disposition of assets. Where information for such cash flow estimates is limited or deemed not reliable, fair value is considered the best estimate of the recoverable value.

In periods subsequent to the initial recognition of an allowance for credit losses on a fixed maturity security, whether for a PCD security or a security impaired since purchase, the Company continues to monitor credit loss expectations. Deterioration in the estimated recoverable value of a credit impaired security is recognized as an addition to the allowance for credit losses, as limited by the amount by which the security's fair value is less than amortized cost. Improvements in the estimated recoverable value of a credit impaired security or improvements in the fair value of a credit impaired security that limit the amount of the allowance result in reductions in the allowance for credit losses, which are recognized as a credit to net investment-related gains (losses) in the consolidated statements of income (loss).

Amounts are charged off against the allowance for credit losses when deemed uncollectible or when the Company determines that it intends to sell, or more likely than not will be required to sell, the security. Charge-offs are reflected as a decrease in the allowance and a direct write down in the amortized cost of the security. If the Company recovers all or a portion of an amount previously written off on a credit impaired security, the recovery is recognized as a realized investment gain.

Funds withheld receivable at interest

The Company reviews its funds withheld receivable at interest for expected credit losses considering, among other things, relevant credit enhancements and collateral provisions in the reinsurance arrangements.

Other investments

Impairment of investments subject to the equity method of accounting is assessed whenever events or circumstances suggest that the carrying amount may not be recoverable. An impairment charge is recognized in earnings for a decline in value that is determined to be other than temporary and is measured as the difference between the carrying amount and the fair value of the equity method investment as of the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents in the consolidated balance sheets generally include short-term highly liquid investments with a maturity of three months or less from the date of acquisition. Amounts included are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Policy liabilities

Policy liabilities (or collectively, "reserves") are the portion of past premiums or assessments received that are set aside to meet future policy and contract obligations as they become due. Interest accrues on these reserves and on future premiums, which may also be available to pay for future obligations. The Company establishes reserves to pay future policy benefits, claims, and certain expenses for its reinsured life policies and annuity contracts.

Reserves are estimates based on models that include many actuarial assumptions and projections. These assumptions and projections, which are inherently uncertain, involve significant judgment, including assumptions as to the levels and/or timing of premiums, benefits, claims, expenses, interest credits, investment results (including equity market returns), mortality, longevity, and persistency.

The assumptions on which reserves are based are intended to represent an estimation of experience for the period that policy benefits are payable. The adequacy of these reserves and the assumptions underlying those reserves are reviewed at least annually. The Company cannot, however, determine with precision the amount or the timing of actual policy benefit payments. If actual experience is better than or equal to the assumptions, then reserves would be adequate to provide for future policy benefits and expenses. If experience is worse than the assumptions, additional reserves may be required to meet future policy and contract obligations. This would result in a charge to the Company’s net income (loss) during the period in which excess policy benefits are paid or an increase in reserves occurs.

For a majority of the Company’s in-force policies, including its universal life policies and most annuity contracts, the base policy reserve is equal to the account value. For these products, the account value represents the Company’s obligation to repay to the policyholder the amounts held on deposit. However, there are several significant blocks of business where additional policyholder reserves are explicitly calculated, including fixed-rate and fixed-indexed annuities, variable annuities, and universal life policies.

Fixed-rate and fixed-indexed annuities

Policy liabilities for fixed-indexed annuities earning a fixed rate of interest and certain other fixed-rate annuity products are computed under a retrospective deposit method and represent policyholder account balances before applicable surrender charges.

The Company reinsures fixed-indexed annuity products, which enable the policyholder to allocate contract value between a fixed crediting rate and strategies which reflect the change in the value of an index, such as the Standard & Poor’s (“S&P”) 500 Index, or other indices. These products are accounted for as investment-type contracts. The liability for these products consists of a combination of the underlying account value and an embedded derivative value. The liability for the underlying account value is primarily based on policy guarantees and its initial value is the difference between the premium payment and the fair value of the embedded derivative. Thereafter, the account value liability is determined in a manner consistent with the accounting for a deposit liability under the “effective yield method.” All future host balances are determined as: (1) the initial host balance; (2) plus interest; (3) less applicable policyholder benefits. The interest rate used in the prior roll forward is re-determined on each valuation date, per the effective yield method. The embedded derivative component’s fair value is based on an estimate of the policyholders’ expected participation in future increases in the relevant index. The fair value of this embedded derivative component includes assumptions, including those about future interest rates and investment yields, future costs for options used to hedge the contract obligations, projected withdrawal and surrender activity, benefit utilization and the level and limits on contract participation in any future increases in the respective index option. The account value liability and embedded derivative are recorded in policy liabilities in the consolidated balance sheets, with changes in value of the liabilities recorded in policy benefits and claims in the consolidated statements of income (loss).

Traditional life and limited-payment contracts

Liability for future policy benefits

The Company reinsures traditional life and limited-payment contracts, for which the Company records a liability for future policy benefits. A liability for future policy benefits, which is the present value of estimated future policy benefits to be paid to or on behalf of policyholders and certain related expenses less the present value of estimated future net premiums to be collected from policyholders, is accrued as premium revenue is recognized. The liability is estimated using current assumptions that include mortality, lapses, and expenses. These current assumptions are based on judgments that consider the Company’s historical experience, industry data, and other factors.

For assumed reinsurance of nonparticipating traditional life and limited-payment contracts, contracts are grouped into cohorts by the underlying reinsured contract type and issue year. The liability is adjusted for differences between actual and expected experience. With the exception of the expense assumption, the Company reviews its historical and future cash flow assumptions quarterly and updates the net premium ratio used to calculate the liability each time the assumptions are changed. The Company has elected to use expense assumptions that are locked in at contract inception and are not subsequently reviewed or updated.

Each quarter, the Company updates its estimate of cash flows expected over the entire life of a group of contracts using actual historical experience and current future cash flow assumptions. These updated cash flows are discounted using the discount rate or curve on the original reinsurance contract issue date to calculate the revised net premiums and net premium ratio, which are used to derive an updated liability for future policy benefits. This amount is then compared to the carrying amount of the liability before the updating of cash flow assumptions to determine the current period change in liability estimate. This current period change in the liability is the liability remeasurement gain or loss and is presented parenthetically as a separate component of benefit expense in the consolidated statements of income (loss).

For nonparticipating traditional life and limited-payment contracts, the discount rate assumption is a spot rate yield curve that is derived based on upper medium grade (low credit risk) fixed-income instruments with similar duration to the liability. The Company uses one or more external indices of corporate credit issues as its proxy for these instruments. The discount rate assumption is updated quarterly and used to remeasure the liability at the reporting date, with the resulting change in the discount rate reflected in other comprehensive income. For liability cash flows between two market observable points on the yield curve, the Company interpolates the effective yield by holding the marginal rates constant. For liability cash flows that are projected beyond the last market-observable point on the yield curve, the Company uses the last market-observable yield level.

Limited-payment contracts

The Company reinsures limited-payment contracts, or payout annuities, which include single premium immediate annuities, annuitizations of deferred annuities, structured settlements and pension risk transfer. These contracts subject the insurer to risks over a period that extends beyond the period or periods in which premiums are collected. These contracts may be either non-life contingent or life contingent. Non-life contingent annuities are accounted for as investment contracts. For life contingent annuities, the Company records a liability at the present value of future annuity payments and estimated future expenses calculated using expected mortality and costs, and expense assumptions. Any gross premiums received in excess of the net premium is part of the cost of reinsurance and is recognized separately in income over the term of the reinsured policies on a basis consistent with the reporting of those policies for long-duration contract. Cost of reinsurance assets and liabilities are reported in cost of reinsurance assets and policy liabilities in the consolidated balance sheets, respectively.

Also included under payout annuities are liabilities for disability income benefits which pertain primarily to disability income policies that are already in claim payout status. Liabilities for disability income benefits are calculated as the present value of future disability payments and estimated future expenses using expected mortality and costs, and interest assumptions. The liabilities are recorded in policy liabilities in the consolidated balance sheets.

Whole life

Contractholder deposit reserves for certain assumed blocks of whole life policies where mortality risk is retained by the ceding company are accounted for as investment-type contracts. A net liability is established at inception for the net consideration and amortized using the effective yield method.

Universal life policies

For reinsured universal life policies, the base policy reserve is the policyholder account value. For these products, the account value represents the Company's obligation to repay to the policyholder the amounts held on deposit. Additional liabilities are held for other insurance benefit guarantees, if applicable.

Reinsurance

The Company co-invests in block and pension risk transfer reinsurance transactions with its Sponsor's Insurance Subsidiaries. In particular, consistent with the overall business strategy, the Company assumes certain policy risks written by other insurance companies on a coinsurance, modified coinsurance or funds withheld coinsurance basis. Reinsurance accounting is applied for these assumed transactions when risk transfer provisions have been met. To meet risk transfer requirements, a long-duration reinsurance contract must transfer mortality or morbidity risks and subject the reinsurer to a reasonable possibility of a significant loss. Those contracts that do not meet risk transfer requirements are accounted for using deposit accounting.

With respect to ceded reinsurance, the Company values reinsurance recoverables on reported claims at the time the underlying claim is recognized in accordance with contract terms. For future policyholder benefits, the Company estimates the amount of reinsurance recoverables based on the terms of the reinsurance contracts and historical reinsurance recovery information. The reinsurance recoverables are based on what the Company believes are reasonable estimates and the balance is reported as an asset in the consolidated balance sheets. However, the ultimate amount of the reinsurance recoverable is not known until all claims are settled.

The cost of reinsurance, which is the difference between the amount paid for a reinsurance contract and the amount of the liabilities for policy benefits relating to the underlying reinsured contracts, is deferred and amortized over the reinsurance contract period for short-duration contracts, or over the terms of the reinsured policies on a basis consistent with the reporting of those policies for long-duration contracts. Generally, the Company amortizes cost of reinsurance based on policy count or effective yield method, retrospectively calculated based on actual and projected future cash flows. Cost of reinsurance assets and liabilities are reported in cost of reinsurance assets and policy liabilities in the consolidated balance sheets, respectively. Reinsurance contracts do not relieve the Company from its obligations to policyholders, and failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for expected credit losses, via a charge to policy benefits and claims in the consolidated statements of income. The Company's funds withheld receivable at interest and reinsurance recoverable assets are reviewed for expected credit losses by considering credit ratings for each reinsurer, historical insurance industry specific default rate factors, rights of offset, expected recovery rates upon default and the impact of other terms specific to the reinsurance arrangement.

For funds withheld and modified coinsurance agreements, the Company has the right to receive or obligation to pay the total return on assets supporting the funds withheld receivable at interest or funds withheld payable at interest. This indirectly exposes the Company to the credit risk of the underlying assets. As a result, funds withheld coinsurance and modified coinsurance agreements are viewed as total return swaps and accounted for as embedded derivatives. Embedded derivatives are required to be separated from the host contracts and measured at fair value with changes in fair value recognized in net income. Generally, the embedded derivative is measured as the difference between the fair value of the underlying assets and the carrying value of the host contract at the balance sheet date. The fair value of the embedded derivative is included in the funds withheld receivable at interest or the funds withheld payable at interest on the consolidated balance sheets. Changes in the fair value of the embedded derivative are reported in operating activities on the consolidated statements of cash flows.

Placement fees, structuring fee and organization setup costs

Placement fees represent fees paid to agents that assist in raising capital for the Company. Placement fees are incurred when capital is committed to the Company and deducted directly from the capital drawn from investors (i.e., offset against additional paid-in capital in the consolidated balance sheets) and reimbursed by the Sponsor as a deduction from management fees. They are reported as a financing activity in the consolidated statements of cash flows.

The placement fees that are reimbursed by the Sponsor are recognized in income over the life of the Company's reinsurance transaction business. The reimbursement of the placement fees is reported as an operating activity in the consolidated statements of cash flows. The corresponding deferred expense reduction liability is included in other liabilities in the consolidated balance sheets.

The structuring fee represents fees paid by the Company for advice on the design and setup of the Company. This fee is expensed as incurred and reimbursed by the Sponsor as a deduction from management fees (as defined below). The structuring fee is reported as an operating activity in the consolidated statements of cash flows. Since the structuring fee is reimbursed by the Sponsor, a receivable is established with a corresponding deferred expense reduction liability that is recognized into income over the life of the reinsurance transactions. The reimbursement of the structuring fee is reported as an operating activity in the consolidated statements of cash flows.

Organization setup costs are for startup costs required to launch the Company. These costs are expensed as incurred. Organization setup costs are reported as an operating activity in the consolidated statements of cash flows.

Management fees

Management fees represent fees paid quarterly by the Company to the Sponsor for services associated with the sourcing, execution and management of pension risk transfer and block reinsurance transactions. Management fees are measured and paid quarterly to the Sponsor at 20 to 23 basis points on U.S. statutory book value of assets, with no management fees charged for investors who are employees of the Sponsor or the Company. Management fees of $15.1 million and $16.8 million for the years ended December 31, 2023 and 2022, respectively, are reported in management fees, net of Sponsor refunds in the consolidated statements of income (loss) and as an operating activity in the consolidated statements of cash flows.

Recognition of insurance revenue and related benefits

Premiums related to whole life and term life insurance contracts and payout contracts with life contingencies are recognized in premiums in the consolidated statements of income (loss) when due from the contractholders.

Amounts received as payment for universal life and investment-type contracts are reported as deposits to contractholder account balances and recorded in policy liabilities in the consolidated balance sheets. Revenues from these contracts consist primarily of fees assessed against the contractholder account balance for mortality, policy administration, separate account administration and surrender charges, and are reported in policy fees in the consolidated statements of income (loss). Additionally, the Company earns investment income from the investment of contract deposits in the Company's insurance companies' general account portfolio, which is reported in net investment income in the consolidated statements of income (loss).

Adoption of new accounting pronouncements

Financial instruments

In June 2016, the Financial Accounting Standards Board ("FASB") issued new guidance on the measurement of credit losses on financial instruments, including reinsurance receivables and funds withheld receivable at interest. This guidance replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses is required to be 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, such that improvements in expected future cash flows after an impairment are no longer 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 accounting standard on January 1, 2023. The adoption did not have a material effect on its consolidated financial statements.

Targeted improvements to the accounting for long-duration insurance contracts

The Company early adopted new accounting guidance for insurance and reinsurance companies that issue long-duration insurance contracts ("LDTI") as of January 1, 2023 on a full retrospective basis.

The following table summarizes the balance of, and changes in the liability for future policy benefits as of January 1, 2022 due to the adoption of LDTI:

Liability for future policy benefits	**Payout annuities**
($ in thousands)	
Balance, as of January 1, 2022	$ 6,908,191
Effect of changes in discount rates	17,330
Adjusted balance, as of January 1, 2022	$ 6,925,521

The net transition adjustment for the liability for future policy benefits is related to the difference in the discount rate used prior to transition and the discount rate as of January 1, 2022. As of the transition date, the Company did not identify any instances, at the cohort level, where net premiums exceeded gross premiums.

The following table summarizes the balance of, and changes in, cost of reinsurance asset as of January 1, 2022 due to the adoption of LDTI:

Cost of reinsurance asset		Payout annuities
($ in thousands)		
Balance, as of January 1, 2022	$	—
Change in discount rate assumptions, decrease (increase) to the cost of reinsurance assets and liabilities		202,083
Adjusted balance, as of January 1, 2022	$	202,083

The following table summarizes the balance of, and changes in, cost of reinsurance liability as of January 1, 2022 due to the adoption of LDTI:

Cost of reinsurance liability		Payout annuities
($ in thousands)		
Balance, as of January 1, 2022	$	73,048
Change in cash flow assumption, liability for future policy benefits		74
Adjusted balance, as of January 1, 2022	$	73,122

The following table presents the effect of transition adjustments on members' equity as of January 1, 2022 due to adoption of LDTI:

		Retained deficit		Accumulated other comprehensive loss		Total
($ in thousands)						
Cost of reinsurance asset	$	202,083	$	—	$	202,083
Liability for future policy benefits		(163,030)		145,700		(17,330)
Cost of reinsurance liability		(74)		—		(74)
Total	$	38,979	$	145,700	$	184,679

As a result of the retrospective application of the LDTI adoption, the Company adjusted certain previously reported amounts in its consolidated balance sheet, consolidated statement of loss, consolidated statement of comprehensive loss, and consolidated statement of cash flows, as follows:

Consolidated balance sheet as of December 31, 2022		As previously reported		Adjustment		As revised
($ in thousands)						
Cost of reinsurance assets	$	—	$	168,233	$	168,233
Total assets		14,813,178		168,233		14,981,411
Policy liabilities		16,317,956		(1,226,541)		15,091,415
Total liabilities		16,415,992		(1,226,541)		15,189,451
Retained deficit		(2,366,227)		66,947		(2,299,280)
Accumulated other comprehensive (loss) income		(21,277)		1,327,827		1,306,550
Total shareholder's equity		(1,602,814)		1,394,774		(208,040)
Total liabilities and shareholder's equity		14,813,178		168,233		14,981,411

The cumulative impact of the retrospective application of the LDTI adoption increased net income by $28.0 million and increased comprehensive income by $1.2 billion for the year ended December 31, 2022. These increases were primarily due to an increase in interest rates.

Consolidated statement of loss for the year ended December 31, 2022	As previously reported	Adjustment	As revised
($ in thousands)			
Policy benefits and claims	$ 369,305	$ (61,819)	$ 307,486
Amortization of cost of reinsurance assets	—	33,851	33,851
Total benefits and expenses	466,689	(27,968)	438,721
Loss before income taxes	(2,332,522)	27,968	(2,304,554)
Net loss	(2,332,522)	27,968	(2,304,554)

Consolidated statement of comprehensive loss for the year ended December 31, 2022	As previously reported	Adjustment	As revised
($ in thousands)			
Net loss	$ (2,332,522)	$ 27,968	$ (2,304,554)
Effect of changes in the discount rates used to measure limited-payment long duration insurance contracts	—	1,182,127	1,182,127
Comprehensive loss	(2,350,065)	1,210,095	(1,139,970)

Consolidated statement of cash flows for the year ended December 31, 2022	As previously reported	Adjustment	As revised
($ in thousands)			
Net loss	$ (2,332,522)	$ 27,968	$ (2,304,554)
Change in policy liabilities and accruals, net	(345,900)	(242,097)	(587,997)

Future application of accounting standards

Improvements to income tax disclosures

In December 2023, the FASB issued new guidance to expand the disclosure requirements for income taxes. This guidance requires more specific annual disclosures for the rate reconciliation, income taxes paid and other items. For the rate reconciliation, more specific categories have been added to the disclosure and entities are required to provide additional information for reconciling items, subject to specific quantitative thresholds. Income taxes paid are required to be disclosed on a disaggregated basis by federal, state, and foreign taxes. The guidance is effective for annual periods beginning after December 15, 2025, with early adoption permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

(3) Investments

Fixed maturity securities

The cost or amortized cost and fair value for AFS fixed maturity securities were as follows:

As of December 31, 2023	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value[1]
($ in thousands)				
AFS fixed maturity securities portfolio by type:				
Corporate	$ 92,505	$ —	$ (14,362)	$ 78,143
Collateralized loan obligations (“CLOs”)	9,100	3	(446)	8,657
Total AFS fixed maturity securities	**$ 101,605**	**$ 3**	**$ (14,808)**	**$ 86,800**

(1) There is no allowance for credit losses recognized as of December 31, 2023.

As of December 31, 2022	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
($ in thousands)				
AFS fixed maturity securities portfolio by type:				
Corporate	$ 115,466	$ —	$ (20,357)	$ 95,109
CLOs	9,100	—	(919)	8,181
Total AFS fixed maturity securities	**$ 124,566**	**$ —**	**$ (21,276)**	**$ 103,290**

The maturity distribution for AFS fixed maturity securities is as follows:

	As of December 31, 2023	
	Cost or amortized cost	Fair value
($ in thousands)		
Due after one year through five years	$ 22,109	$ 19,702
Due after five years through ten years	70,396	58,441
Subtotal	**92,505**	**78,143**
CLOs	9,100	8,657
Total AFS fixed maturity securities	**$ 101,605**	**$ 86,800**

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties, or the Company may have the right to put or sell the obligations back to the issuers. Structured securities are shown separately as they have periodic payments and are not due at a single maturity.

Securities in a continuous unrealized loss position

The following tables provide information about the Company's AFS fixed maturity securities that have been continuously in an unrealized loss position:

As of December 31, 2023	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
($ in thousands)						
AFS fixed maturity securities portfolio by type:						
Corporate	$ —	$ —	$ 78,143	$ (14,362)	$ 78,143	$ (14,362)
CLOs	—	—	5,529	(446)	5,529	(446)
Total	**$ —**	**$ —**	**$ 83,672**	**$ (14,808)**	**$ 83,672**	**$ (14,808)**

As of December 31, 2022	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
($ in thousands)						
AFS fixed maturity securities portfolio by type:						
Corporate	$ —	$ —	$ 95,109	$ (20,357)	$ 95,109	$ (20,357)
CLOs	3,747	(141)	4,434	(778)	8,181	(919)
Total	**$ 3,747**	**$ (141)**	**$ 99,543**	**$ (21,135)**	**$ 103,290**	**$ (21,276)**

Unrealized gains and losses can be created by changing interest rates or several other factors, including changing credit spreads. The largest unrealized losses on AFS fixed maturity securities were $2.4 million and $2.7 million as of December 31, 2023 and 2022, respectively. The Company had 16 and 20 securities in an unrealized loss position as of December 31, 2023 and 2022, respectively. The Company had 16 and 18 securities in an unrealized loss position for more than twelve months as of December 31, 2023 and 2022, respectively.

Funds withheld receivable at interest

As a reinsurance business, the Company is subject to the investment performance of the assets in the funds withheld receivable at interest. In the event of a ceding company's insolvency, the Company would need to assert a claim on the assets supporting its reserve liabilities. However, the risk of loss to the Company is mitigated by its ability to offset amounts it owes the ceding company for claims or allowances against amounts owed to it from the ceding company. As of December 31, 2023 and 2022, there were three Sponsor Insurance Subsidiary ceding companies holding assets under reinsurance agreements. Each of the three cedants, Commonwealth Annuity and Life Insurance Company ("CWA"), First Allmerica Financial Life Insurance Company ("FAFLIC"), and Global Atlantic Assurance Limited ("GAAL") have financial strength ratings of "A-" from S&P.

The reinsurer has an indirect exposure to the credit risk of the underlying assets of the funds withheld or modified coinsurance account. As a result, funds withheld coinsurance and modified coinsurance agreements contain embedded derivatives, which are required to be separated from their host contracts and measured at fair value. The host contract relates to the reinsurance receivable from ceding Sponsor Insurance Subsidiaries under the funds withheld arrangement underlying the reinsurance transactions. The host contract at inception of the reinsurance arrangement represented the fair value of the non-cash consideration. The embedded derivative represents the difference between the fair value of the underlying assets and the carrying value of the host contract at the balance sheet date. The fair value of the embedded derivative is included in the funds withheld receivable at interest on the consolidated balance sheets.

As of December 31, 2023 and 2022, the Company reported a retained deficit primarily due to changes in the value of the funds withheld or modified coinsurance embedded derivative, which was impacted by higher market interest rates and a decline in asset values. During the years ended December 31, 2023 and 2022, the fair value of this embedded derivative increased by $484.0 million and decreased by $2.7 billion, respectively. The retained deficit did not impact the Company's solvency, which is regulated by the BMA.

The following summarizes the underlying investment composition of the funds withheld receivable at interest as of the dates indicated:

	December 31, 2023		December 31, 2022	
	Carrying value[2]	Percentage of total	Carrying value[2]	Percentage of total
($ in thousands, except percentages)				
Fixed maturity security portfolio by type:				
U.S. government and agencies	$ 66,271	0.5 %	$ 70,473	0.5 %
U.S. state, municipal and political subdivisions	293,363	2.3 %	531,136	3.8 %
Corporate	6,090,462	48.0 %	6,819,753	48.7 %
Commercial mortgage-backed securities	858,483	6.8 %	917,095	6.6 %
Residential mortgage-backed securities	173,879	1.4 %	246,734	1.8 %
CLOs	111,917	0.9 %	214,279	1.5 %
Collateralized bond obligations	105,664	0.8 %	180,664	1.3 %
All other structured securities	3,155,725	24.9 %	3,395,539	24.3 %
Total fixed-maturity security portfolio	**10,855,764**	**85.6 %**	**12,375,673**	**88.4 %**
Mortgages and other loans	3,740,792	29.5 %	4,116,384	29.4 %
Cash and cash equivalents	240,673	1.9 %	152,527	1.1 %
Embedded derivative[1]	(2,059,313)	(16.2)%	(2,607,440)	(18.6)%
Other receivables from cedants	203,408	1.6 %	211,923	1.5 %
Other assets and liabilities	(297,991)	(2.4)%	(248,006)	(1.8)%
Total funds withheld receivable at interest	**$ 12,683,333**	**100.0 %**	**$ 14,001,061**	**100.0 %**

(1) See Note 2—"Significant accounting policies and practice" for more information on the Company's funds withheld and modified coinsurance accounting policy.

(2) Includes the value at which a security is carried at, either at book value or fair value, depending on the type of security and the National Association of Insurance Commissioners ("NAIC") rating.

Within the funds withheld receivable at interest, 90% and 93% of the fixed maturity security portfolio was classified as investment grade by NAIC designation as of December 31, 2023 and 2022, respectively.

Other investments

As of December 31, 2023 and 2022, the Company had $23.4 million and $8.2 million of investment in entities that own real estate, respectively. These investments qualify as equity method investments; however, the Company has elected to apply the fair value option. The Company's maximum exposure to loss related to these investments is limited to the carrying value of these investments.

Net investment income

Net investment income is comprised primarily of interest income, including amortization of premiums and accretion of discounts, based on yields which change due to expectations in projected cash flows, dividend income from common and preferred stock, and income on funds withheld receivable at interest.

The components of net investment income were as follows:

	Years ended December 31,	
	2023	2022
($ in thousands)		
Fixed maturity securities - interest and other income	$ 2,819	$ 2,708
Income assumed from funds withheld receivable at interest	727,587	678,622
Short-term and other investment income	2,221	241
Gross investment income	**732,627**	**681,571**
Less investment expenses:		
Investment management fees(1)	28,020	31,172
Net investment income	**$ 704,607**	**$ 650,399**

(1) Investment management fees include the 18 basis points per annum fee, or such other fee agreed to by the Sponsor and the applicable investor, charged by the Sponsor for the portfolio assets its investment manager manages under the terms of the operating and respective reinsurance agreements.

Net investment-related gains (losses)

Net investment-related gains (losses) were as follows:

	Years ended December 31,	
	2023	2022
($ in thousands)		
Realized losses on AFS fixed maturity securities	$ (2,091)	$ (1,253)
Unrealized gains (losses) on embedded derivative included in funds withheld receivable at interest(1)	484,015	(2,650,720)
Realized gains (losses) on funds withheld receivable at interest	37,519	(12,068)
Unrealized gains (losses) on other investments(1)	14,903	(73)
Net investment-related gains (losses)	**$ 534,346**	**$ (2,664,114)**

(1) See Note 2—"Significant accounting policies and practice" for more information on the Company's funds withheld and modified coinsurance accounting policy and other investments.

Proceeds and gross gains and losses from voluntary sales

The proceeds from voluntary sales and the gross gains and losses on those sales of AFS fixed maturity securities were as follows:

	Years ended December 31,	
	2023	2022
($ in thousands)		
AFS fixed maturity securities:		
Proceeds from voluntary sales	$ 19,087	$ 24,286
Gross losses	(2,091)	(1,253)

(4) Derivatives

The Company has embedded derivatives related to reinsurance contracts that are accounted for on a modified coinsurance and funds withheld basis; an embedded derivative exists because the arrangement exposes the reinsurer to third-party credit risk. The Company also has embedded derivatives related to insurance liabilities including fixed-indexed annuities. These embedded derivatives are included in funds withheld receivable at interest and policy liabilities in the consolidated balance sheets.

The fair value of the derivatives was as follows:

	December 31,	
	2023	2022
($ in thousands)		
Embedded derivative – funds withheld receivable at interest[1]	$ (2,059,313)	$ (2,607,440)
Embedded derivative – annuity products	176,498	139,577

(1) See Note 2—"Significant accounting policies and practice" and Note 3—"Investments" for more information on the Company's funds withheld and modified coinsurance accounting policy.

(5) Fair value disclosure of financial instruments

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). The best evidence of fair value is a quoted price in an active market. If listed prices or quotations are not available, fair value is determined by reference to prices of similar instruments and quoted prices or recent prices in less active markets.

U.S. GAAP establishes a three-level valuation hierarchy based upon observable and non-observable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. The fair value hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. A financial instrument's level in the fair value hierarchy is based on the lowest level of any input that is significant to fair value measurement of the financial instrument. The three levels of the fair value hierarchy are described below:

Basis of fair value measurement

Level 1: Unadjusted quoted prices in active markets to which the Company had access at the measurement date for identical, unrestricted assets and liabilities.

Level 2: Inputs to valuation techniques are observable either directly or indirectly through quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable; and

Level 3: Model-derived where one or more inputs to the valuation techniques are significant and unobservable.

The measurement of Level 3 financial instrument fair values uses unobservable inputs that are based on management judgment and the internal determination of assumptions that market participants would use in valuing them. Valuation subjectivity increases when markets are less liquid due to the lack of more transparent market-based inputs, which may increase the potential that estimated fair values are not reflective of the price at which an actual transaction would occur.

The following tables represent the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis:

As of December 31, 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
($ in thousands)				
Assets:				
AFS fixed maturity securities:				
Corporate	$ —	$ 78,143	$ —	$ 78,143
CLOs	—	5,822	2,835	8,657
Total AFS fixed maturity securities	**—**	**83,965**	**2,835**	**86,800**
Funds withheld receivable at interest	—	—	(2,059,313)	(2,059,313)
Other investments	—	—	23,415	23,415
Total assets at fair value	**$ —**	**$ 83,965**	**$ (2,033,063)**	**$ (1,949,098)**
Liabilities:				
Embedded derivative – annuity products	$ —	$ —	$ 176,498	$ 176,498
Total liabilities at fair value	**$ —**	**$ —**	**$ 176,498**	**$ 176,498**

As of December 31, 2022	Level 1	Level 2	Level 3	Total
($ in thousands)				
Assets:				
AFS fixed maturity securities:				
Corporate	$ —	$ 95,109	$ —	$ 95,109
CLOs	—	5,522	2,659	8,181
Total AFS fixed maturity securities	**—**	**100,631**	**2,659**	**103,290**
Funds withheld receivable at interest	—	—	(2,607,440)	(2,607,440)
Other investments	—	—	8,151	8,151
Total assets at fair value	**$ —**	**$ 100,631**	**$ (2,596,630)**	**$ (2,495,999)**
Liabilities:				
Embedded derivative – annuity products	$ —	$ —	$ 139,577	$ 139,577
Total liabilities at fair value	**$ —**	**$ —**	**$ 139,577**	**$ 139,577**

Fair value techniques and inputs

The following is a description of the valuation techniques and inputs used for instruments carried at fair value. The observability of the inputs used in the valuation determines the appropriate level in the fair value hierarchy for the respective asset or liability.

Investments

Investments in U.S. Treasury, government and agency securities, foreign government securities, short-term money market securities and mutual funds held in separate accounts are valued using quoted market prices for identical unrestricted instruments in active markets. Investments such as fixed maturity securities for which quoted market prices from active markets are not available are priced using observable inputs, which can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations and the relationship of recent market activity to the prices provided by alternative pricing sources. Other investments having one or more significant valuation inputs that are not observable are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequently, the Company uses other methodologies to determine fair value, which vary based on the type of investment.

Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realized on sales.

Funds withheld receivable at interest and insurance liabilities

A portion of the funds withheld receivable at interest carried at fair value represents embedded derivatives and is valued based on the fair value of the underlying investments, which includes significant unobservable inputs.

Policy liabilities carried at fair value are valued using present value techniques that discount estimated liability cash flows at a rate that reflects the riskiness of those cash flows and also consider policyholder behavior (lapse rates, surrender rates and mortality). Other embedded derivative liabilities are related to our fixed-indexed annuity products, which contain equity-indexed features. We calculate the embedded derivative liabilities as the present value of future projected benefits in excess of the projected guaranteed benefits, using an option budget as the indexed account value growth rate and considering an adjustment to reflect the risk of nonperformance on our obligation and inputs such as projected withdrawal and surrender activity, and mortality. We calculate nonperformance risk using a blend of observable peer holding company credit spreads, adjusted to reflect the claims paying ability of our insurance entities, as well as an adjustment to reflect the priority of policy claims.

Fair value of assets and liabilities

Significant unobservable inputs

The table below presents significant unobservable inputs used to value the Company's Level 3 financial assets and liabilities and includes only those items for which information is reasonably available, such as data from internal determinations of fair value. The weighted average in the table below is calculated by weighting each input by the relative fair value of the respective financial instrument. The weighted average of these inputs is not representative of the appropriate inputs to use when calculating the fair value of any one financial liability.

As of December 31, 2023				
Level 3 assets [(1)]	Level 3 assets *($ in thousands)*	Valuation techniques and significant unobservable inputs	Range of significant unobservable inputs (weighted average, or "WA")	Impact of an increase in the input on fair value
Other investments	$23,415	Discounted cash flow - vacancy rate	0.00% to 2.50%; WA 2.07%	Decrease
		Discounted cash flow - discount rate	6.25% to 7.59%; WA 7.28%	Decrease
		Discounted cash flow - terminal capitalization rate	5.00% to 6.25%; WA 5.43%	Decrease

(1) The funds withheld receivable at interest have been excluded from the above table. As discussed in Note 11 - Reinsurance, the funds withheld receivable at interest is created through funds withheld contracts. The assets supporting these receivables were held in trusts and are part of the respective counterparty's balance sheet. Accordingly, the unobservable inputs utilized in the valuation of the embedded derivative are a component of the invested assets supporting the reinsurance agreements on the Company's consolidated balance sheets.

As of December 31, 2023				
Level 3 liabilities	Level 3 liabilities *($ in thousands)*	Valuation techniques and significant unobservable inputs	Range of significant unobservable inputs (weighted average, or "WA")	Impact of an increase in the input on fair value
Embedded derivative – annuity products	$176,498	Future costs for options used to hedge contract obligations	Option budget assumption: Fixed-indexed annuity WA 1.87%	Increase
		Policyholder behavior is a significant unobservable input, including surrender and mortality	Surrender rate: Fixed-indexed annuity WA 36.68%	Decrease
			Mortality rate: Fixed-indexed annuity WA 3.29%	Decrease

As of December 31, 2022				
Level 3 assets [(1)]	**Level 3 assets *($ in thousands)***	**Valuation techniques and significant unobservable inputs**	**Range of significant unobservable inputs (weighted average, or "WA")**	**Impact of an increase in the input on fair value**
Other investments	$8,151	Direct capitalization method - capitalization rate	0.053%	Decrease
		Discounted cash flow and direct capitalization method - vacancy rate	0.00% - 5.00%; WA 3.17%	Decrease
		Discounted cash flow - discount rate	5.50% - 6.75%; WA 6.44%	Decrease
		Discounted cash flow - terminal capitalization rate	4.25% - 5.75%; WA 5.27%	Decrease

(1) The funds withheld receivable at interest have been excluded from the above table. As discussed in Note 11 - Reinsurance, the funds withheld receivable at interest is created through funds withheld contracts. The assets supporting these receivables were held in trusts and are part of the respective counterparty's balance sheet. Accordingly, the unobservable inputs utilized in the valuation of the embedded derivative are a component of the invested assets supporting the reinsurance agreements on the Company's consolidated balance sheets.

As of December 31, 2022				
Level 3 liabilities	**Level 3 liabilities *($ in thousands)***	**Valuation techniques and significant unobservable inputs**	**Range of significant unobservable inputs (weighted average, or "WA")**	**Impact of an increase in the input on fair value**
Embedded derivative – annuity products	$139,577	Future costs for options used to hedge policy liabilities	Option budget assumption: Fixed-indexed annuity WA 1.92%; Variable annuity: n/a	Increase
			Surrender rate: WA 28.2%	Decrease
			Mortality rate: WA 2.2%	Decrease

The tables below set forth a summary of changes in the fair value of the Company's Level 3 assets and liabilities for the years ended December 31, 2023 and 2022, respectively. The tables reflect gains and losses for all assets and liabilities categorized as Level 3 for the years ended December 31, 2023 and 2022, respectively:

		Net realized and unrealized gains / losses included in						Total realized and unrealized gains / losses included in	
Year ended December 31, 2023	**Beginning balance**	**Income**	**OCI**	**Net settlements / purchases**	**Transfers into Level 3**	**Transfers out of Level 3**	**Balance, at end of period**	**Income(1)**	**OCI(1)**
($ in thousands)									
Assets:									
AFS fixed maturity securities:									
CLOs	$ 2,659	$ —	$ 176	$ —	$ —	$ —	$ 2,835	$ —	$ 171
Total AFS fixed maturity securities	**2,659**	**—**	**176**	**—**	**—**	**—**	**2,835**	**—**	**171**
Funds withheld receivable at interest	(2,607,440)	484,015	—	64,112	—	—	(2,059,313)	484,015	—
Other investments	8,151	14,903	—	361	—	—	23,415	14,903	—
Total assets	**$(2,596,630)**	**$ 498,918**	**$ 176**	**$ 64,473**	**$ —**	**$ —**	**$(2,033,063)**	**$ 498,918**	**$ 171**
Liabilities:									
Embedded derivative – annuity products	$ 139,577	$ 53,180	$ —	$ (16,259)	$ —	$ —	$ 176,498	$ —	$ —
Total liabilities	**$ 139,577**	**$ 53,180**	**$ —**	**$ (16,259)**	**$ —**	**$ —**	**$ 176,498**	**$ —**	**$ —**

(1) As related to financial instruments still held as of the end of the period.

		Net realized and unrealized gains / losses included in						Total realized and unrealized gains / losses included in	
Year ended December 31, 2022	**Beginning balance**	**Income**	**OCI**	**Net settlements / purchases**	**Transfers into Level 3**	**Transfers out of Level 3**	**Balance, at end of period**	**Income(1)**	**OCI(1)**
($ in thousands)									
Assets:									
AFS fixed maturity securities:									
CLOs	$ 8,560	$ (421)	$ (180)	$ (5,300)	$ —	$ —	$ 2,659	$ —	$ (189)
Total AFS fixed maturity securities	**8,560**	**(421)**	**(180)**	**(5,300)**	**—**	**—**	**2,659**	**—**	**(189)**
Funds withheld receivable at interest	—	(2,573,170)	—	(34,270)	—	—	(2,607,440)	—	—
Other investments	—	(73)	—	8,224	—	—	8,151	(73)	—
Total assets	**$ 8,560**	**$ (2,573,664)**	**$ (180)**	**$ (31,346)**	**$ —**	**$ —**	**$ (2,596,630)**	**$ (73)**	**$ (189)**
Liabilities:									
Embedded derivative – annuity products	$ 219,908	$ (80,331)	$ —	$ —	$ —	$ —	$ 139,577	$ —	$ —
Total liabilities	**$ 219,908**	**$ (80,331)**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 139,577**	**$ —**	**$ —**

(1) As related to financial instruments still held as of the end of the period.

Year ended December 31, 2023	**Purchases**	**Issuances**	**Sales**	**Settlements**	**Net settlements / purchases**
($ in thousands)					
Assets:					
Funds withheld receivable at interest	$ —	$ 64,112	$ —	$ —	$ 64,112
Other investments	—	361	—	—	361
Total assets	**$ —**	**$ 64,473**	**$ —**	**$ —**	**$ 64,473**
Liabilities:					
Embedded derivative – annuity products	$ —	$ 5	$ —	$ (16,264)	$ (16,259)
Total liabilities	**$ —**	**$ 5**	**$ —**	**$ (16,264)**	**$ (16,259)**

Year ended December 31, 2022	Purchases	Issuances	Sales	Settlements	Net settlements / purchases
($ in thousands)					
Assets:					
CLOs	$ —	$ —	$ (5,300)	$ —	$ (5,300)
Total AFS fixed maturity securities	**—**	**—**	**(5,300)**	**—**	**(5,300)**
Funds withheld receivable at interest	—	—	—	(34,270)	(34,270)
Other investments	8,224	—	—	—	8,224
Total assets	**$ 8,224**	**$ —**	**$ (5,300)**	**$ (34,270)**	**$ (31,346)**

(6) Composition of other assets, liabilities, insurance expenses, and general and administrative expenses

Other assets consist of the following:

	As of December 31,	
	2023	2022
($ in thousands)		
Miscellaneous assets	10,006	22,576
Total other assets	$ 10,006	$ 22,576

Other liabilities consist of the following:

	As of December 31,	
	2023	2022
($ in thousands)		
Deferred reinsurance gain	—	42,039
Deferred expense reduction liability(1)	8,066	12,540
Accrued expenses and other payables(2)	9,256	10,195
Total other liabilities	**$ 17,322**	**$ 64,774**

(1) Includes placement fees which are paid initially by the Company and then reimbursed by the Sponsor over time.

(2) Includes net affiliate receivable amount of $3.7 million and $9.9 million as of December 31, 2023 and 2022, respectively.

Insurance expenses consist of the following:

	Years ended December 31,	
	2023	2022
($ in thousands)		
Commission expense	$ 20,504	$ 24,007
Reinsurance expense allowance	32,453	38,324
Premium taxes	2,387	2,745
Excise tax and other insurance expenses	15,341	12,899
Total insurance expenses	**$ 70,685**	**$ 77,975**

General and administrative expenses consist of the following:

	Years ended December 31,	
	2023	2022
($ in thousands)		
Professional services	$ 1,808	$ 1,308
Other miscellaneous general and administrative expenses	1,216	1,332
Total general and administrative expenses	**$ 3,024**	**$ 2,640**

(7) Policy liabilities

The following reflects the reconciliation of the components of policy liabilities to the total balance reported in the consolidated balance sheets as of December 31, 2023 and 2022, respectively:

	As of December 31,	
	2023	2022
($ in thousands)		
Policyholders' account balances	$ 8,593,216	$ 9,730,312
Liability for future policy benefits	4,884,865	5,134,447
Other policy-related liabilities(1)	244,602	226,656
Total policy liabilities	**$ 13,722,683**	**$ 15,091,415**

(1) Other policy-related liabilities primarily consist of embedded derivatives associated with contractholder deposit funds ($176.5 million and $139.6 million) and cost of reinsurance liabilities ($68.1 million and $87.1 million) as of December 31, 2023 and 2022, respectively.

Policyholders' account balances

The following reflects the policyholders' account balances roll-forward for the years ended December 31, 2023 and 2022, respectively, and the policyholders' account balances average interest rates, net amount at risk, and cash surrender value as of those dates:

	Year ended December 31, 2023				
	Fixed rate annuities	Fixed indexed annuities	Interest sensitive life	Payout annuities[5]	Total
($ in thousands, except percentages)					
Balance as of the beginning of the period	**$ 3,349,640**	**$ 2,758,458**	**$ 3,466,469**	**$ 155,745**	**$ 9,730,312**
Issuances and premiums received	27,572	6,501	46,090	—	80,163
Benefit payments, surrenders, and withdrawals	(577,256)	(662,885)	(128,909)	(39,017)	(1,408,067)
Interest[1]	89,414	44,392	90,480	5,778	230,064
Other activity[2]	(7,489)	434	(35,612)	3,411	(39,256)
Balance as of the end of the period	**$ 2,881,881**	**$ 2,146,900**	**$ 3,438,518**	**$ 125,917**	**$ 8,593,216**
Average interest rate	2.48 %	1.81 %	2.64 %	3.74 %	2.38 %
Net amount at risk[3]	$ —	$ —	$ 680,054	$ —	$ 680,054
Cash surrender value[4]	2,576,424	2,174,453	2,812,010	—	7,562,887

(1) Interest includes interest credited to policyholders' account values, and interest accreted in other components of the policyholder account balance, including investment-type contract values, host amounts for contractholder deposits with embedded derivatives, and other associated reserves.

(2) Other activity includes policy charges, fees and commissions, transfers, and assumption change.

(3) Net amount at risk represents the difference between the face value of the life insurance policy and the reserve accumulated under that same policy.

(4) Cash surrender values are reported net of any applicable surrender charges.

(5) Payout annuities consist of activity related to payout annuities (without life contingencies).

	Year ended December 31, 2022				
	Fixed rate annuities	Fixed indexed annuities	Interest sensitive life	Payout annuities	Total
($ in thousands, except percentages)					
Balance as of the beginning of the period	**$ 3,610,015**	**$ 3,210,943**	**$ 3,469,206**	**$ 196,127**	**$ 10,486,291**
Issuances and premiums received	45,304	16,818	49,950	—	112,072
Benefit payments, surrenders, and withdrawals	(375,081)	(511,655)	(103,394)	(43,457)	(1,033,587)
Interest[(1)]	75,388	45,193	90,058	3,490	214,129
Other activity[(2)]	(5,986)	(2,841)	(39,351)	(415)	(48,593)
Balance as of the end of the period	**$ 3,349,640**	**$ 2,758,458**	**$ 3,466,469**	**$ 155,745**	**$ 9,730,312**
Average interest rate	2.15 %	1.59 %	2.64 %	1.98 %	2.16 %
Net amount at risk[(3)]	$ —	$ —	$ 711,983	$ —	$ 711,983
Cash surrender value[(4)]	3,034,198	2,747,452	2,825,559	—	8,607,209

(1) Interest includes interest credited to policyholders' account values, and interest accreted in other components of the policyholder account balance, including investment-type contract values, host amounts for contractholder deposits with embedded derivatives, and other associated reserves.

(2) Other activity includes policy charges, fees and commissions, transfers, and assumption change.

(3) Net amount at risk represents the difference between the face value of the life insurance policy and the reserve accumulated under that same policy.

(4) Cash surrender values are reported net of any applicable surrender charges.

The following table presents the account values by range of guaranteed minimum crediting rates and the related range of difference, in basis points, between rates being credited to policyholders and the respective guaranteed minimums. Account value, as disclosed below, differs from policyholder account balance as it excludes balances associated with index credits, contractholder deposit fund host balances, and other associated reserves. In addition, the policyholder account balance includes discounts and premiums on assumed business which are not reflected in the account value.

	As of December 31, 2023					
	Account values with adjustable crediting rates subject to guaranteed minimums:					
Range of guaranteed minimum crediting rates	At guaranteed minimum	1 - 49 bps above guaranteed minimum	50 - 99 bps above guaranteed minimum	100 - 150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum	Total
($ in thousands, except percentages)						
Less than 1.00%	$ —	$ —	$ —	$ —	$ 13	$ 13
1.00% - 1.99%	171,509	193,860	173,881	252,711	197,154	989,115
2.00% - 2.99%	80,668	11,540	951	—	—	93,159
3.00% - 4.00%	883,083	6,127	11	—	7	889,228
Greater than 4.00%	1,915,410	262,419	—	—	—	2,177,829
Total	**$ 3,050,670**	**$ 473,946**	**$ 174,843**	**$ 252,711**	**$ 197,174**	**$ 4,149,344**
Percentage of total	**74 %**	**11 %**	**4 %**	**6 %**	**5 %**	**100 %**

	As of December 31, 2022					
	Account values with adjustable crediting rates subject to guaranteed minimums:					
Range of guaranteed minimum crediting rates	At guaranteed minimum	1 - 49 bps above guaranteed minimum	50 - 99 bps above guaranteed minimum	100 - 150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum	Total
($ in thousands, except percentages)						
Less than 1.00%	$ —	$ —	$ —	$ —	$ 355	$ 355
1.00% - 1.99%	323,782	265,123	220,328	296,477	206,468	1,312,178
2.00% - 2.99%	115,063	12,775	2,323	20	—	130,181
3.00% - 4.00%	1,050,042	4,136	725	—	—	1,054,903
Greater than 4.00%	1,929,498	246,977	—	—	—	2,176,475
Total	**$ 3,418,385**	**$ 529,011**	**$ 223,376**	**$ 296,497**	**$ 206,823**	**$ 4,674,092**
Percentage of total	**74 %**	**11 %**	**5 %**	**6 %**	**4 %**	**100 %**

Liability for future policy benefits

The following table summarizes the balances of, and changes in, the liability for future policy benefits for limited-payment contracts for the years ended December 31, 2023 and 2022, respectively:

	Payout annuities(1)	
	Years ended December 31,	
	2023	2022
($ in thousands)		
Present value of expected future policy benefits		
Balance as of the beginning of the period	**$ 5,134,447**	**$ 6,925,521**
Balance at original discount rate	**6,462,273**	**7,071,221**
Effect of changes in cash flow assumptions	(1,101)	—
Effect of actual variances from expected experience	12,746	(47,083)
Adjusted beginning of the period balance	**6,473,918**	**7,024,138**
Interest	113,699	115,369
Benefit payments	(593,970)	(677,234)
Ending balance at original discount rate	**5,993,647**	**6,462,273**
Effect of changes in discount rate assumptions	(1,108,782)	(1,327,826)
Balance as of the end of the period	**4,884,865**	**5,134,447**
Net liability for future policy benefits	**$ 4,884,865**	**$ 5,134,447**

(1) Payout annuities generally only have a single premium received at contract inception; As a result, the liability for future policy benefits generally would not reflect a present value for future premiums for payout annuities.

The following table reflects the weighted-average duration and weighted-average interest rates of the future policy benefit liability as of December 31, 2023 and 2022, respectively:

	Payout annuities	
	As of December 31,	
	2023	2022
Weighted-average interest rates, original discount rate	2.46 %	2.39 %
Weighted-average interest rates, current discount rate	4.94 %	5.06 %
Weighted-average liability duration (years)	7.93	7.93

The following reflects the undiscounted ending balance of expected future gross premiums and expected future benefits and payments for limited-payment contracts as of December 31, 2023 and 2022, respectively:

	Payout annuities	
	As of December 31,	
	2023	2022
($ in thousands)		
Expected future benefit payments, undiscounted	$ 7,596,397	$ 8,186,868
Expected future benefit payments, discounted (original discount rate)	5,993,647	6,462,273
Expected future benefit payments, discounted (current discount rate)	4,884,865	5,134,447

Significant inputs, judgments, and assumptions used in measuring future policy benefits

Significant inputs in determining the measurement of liabilities of future policy benefits include mortality and discount rates. The Company reviews all assumptions at least annually, and more frequently if necessary. Accordingly, as part of the annual assumption review conducted during the year ended December 31, 2023, the Company revised assumptions relating to the stop-loss agreement covering a disability income product reinsured from the Sponsor Insurance Subsidiary, resulting in a favorable impact of $1.1 million.

For the years ended December 31, 2023 and 2022, the Company recognized $(219.0) million and $1.2 billion in other comprehensive (loss) income, respectively, due to changes in the future policy benefits estimate from updating discount rates. During the years ended December 31, 2023, and 2022, there were no changes to the methods used to determine the discount rates.

(8) Shareholder’s equity

The maximum number of the Company shares authorized for issuance is 250,000 common shares at par value of $1 per share.

Return of capital

For the years ended December 31, 2023 and 2022 the Company has made a total of $116.0 million and $136.9 million, respectively, in returns of capital to its direct parent, Ivy FinCo.

Dividends

For the years ended December 31, 2023 and 2022, the Company made a total of $252.0 million and $100.7 million in dividend payments.

(9) Accumulated other comprehensive income

Information regarding amounts reclassified out of each component of accumulated other comprehensive income for the years ended December 31, 2023 and 2022, respectively, were as follows:

Components of accumulated other comprehensive income	Consolidated statements of income (loss) and consolidated statements of comprehensive income (loss) location	Years ended December 31, 2023	Years ended December 31, 2022
($ in thousands)			
Net unrealized investment losses on AFS fixed maturity securities and other investments:			
Net unrealized investment losses	Net unrealized investment losses		
Net unrealized investment losses		$ (2,091)	$ (1,253)
Net unrealized investment losses, reclassified		**$ (2,091)**	**$ (1,253)**

(10) Income taxes

The Company is a Bermuda tax resident and its respective subsidiaries are based in the United States. Bermuda enacted the Corporate Income Tax Act 2023 on December 27, 2023. Ivy Re Limited is expected to be eligible for the five-year limited international presence exemption. It is expected that by 2030, Ivy Re Limited would be below €750 million revenue threshold and therefore would be out of scope for the corporate income tax. The Company may be subject to a variety of transfer pricing or permanent establishment challenges by taxing authorities in various jurisdictions. The completion of tax examinations may result in changes to the amounts recognized in the Company's consolidated financial statements.

The Company owns interests in certain U.S. entities that invest in real estate, the income of which is subject to U.S. income tax. The Company recorded income tax expense of $3.1 million for the year ended December 31, 2023, resulting in a deferred tax liability.

(11) Reinsurance

The Company has entered into a number of reinsurance treaties with Sponsor Insurance Subsidiaries whereby it assumes fixed-rate and fixed-indexed annuities, whole life and universal life insurance policies primarily on a funds withheld basis.

The effects of all reinsurance agreements on the consolidated balance sheets were as follows:

	As of December 31,	
	2023	2022
($ in thousands)		
Policy liabilities:		
Assumed	$ 13,722,683	$ 15,091,415
Total policy liabilities	**$ 13,722,683**	**$ 15,091,415**

The Company determines the appropriate amount of reinsurance based on evaluation of the risks accepted and on market conditions (including the availability and pricing of reinsurance). The Company evaluates the financial condition and monitors concentrations of credit risk with its Sponsor Insurance Subsidiaries. Based on its review of the Sponsor Insurance Subsidiaries' consolidated financial statements and reputations in the reinsurance marketplace, the Company held no allowance for bad debts as of both December 31, 2023 and 2022.

As of December 31, 2023 and 2022, respectively, the Company had $12.5 billion and $13.8 billion of funds withheld receivable at interest with three Sponsor Insurance Subsidiaries related to funds withheld contracts. The assets supporting these receivables were held in trusts by the Sponsor Insurance company. The assets supporting the remaining funds withheld receivable at interest balance are held in a trust by an unaffiliated reinsurance company.

The effects of reinsurance on the consolidated statements of income (loss) were as follows:

	Years ended December 31,	
	2023	2022
($ in thousands)		
Assumed:		
Premiums	$ 129,972	$ 146,744
Policy fees	1,453	1,138
Policy benefits and claims	469,361	307,487

The Company is contractually liable for U.S. federal excise taxes under the terms of the reinsurance treaties it has entered with Sponsor Insurance Subsidiaries. The obligation is calculated as 1% of premiums paid to the Company on a cash basis. The Company incurred $15.2 million for the year ended December 31, 2023 of excise tax expense. The excise tax expense is included in insurance expenses in the consolidated statements of income (loss).

(12) Dividend restrictions and statutory information

The Company is subject to the Bermuda Insurance Act 1978, as amended, and related regulations (the "Bermuda Insurance Act").

The Bermuda Insurance Act limits the ability of the Company to pay dividends or make capital distributions by stipulating certain margin and solvency requirements and by requiring approval from the BMA prior to a distribution of 15% or more of an insurer's total statutory capital as reported on its prior year statutory balance sheet. Moreover, an insurer must submit an affidavit to the BMA, sworn by at least two directors and the principal representative in Bermuda of the Bermuda insurer, at least seven days prior to payment of any dividend which would exceed 25% of an insurer's total statutory capital and surplus as reported on its prior year statutory balance sheet. The affidavit must state that, in the opinion of those swearing, the declaration of such dividend has not caused the insurer to fail to meet its relevant margins ("Bermuda Dividend Affidavit"). Accordingly, the Company may distribute up to: (1) 100% of statutory surplus; plus (2) an amount less than 15% of statutory capital, upon providing the BMA with a Bermuda Dividend Affidavit and meeting applicable solvency requirements, without BMA approval.

With respect to margin and solvency requirements, the Bermuda Insurance Act prohibits the Company from declaring or paying any dividends during any financial year if it is in breach of its solvency margin or if the declaration or payment of such dividends would cause such a breach. If the insurer has failed to meet its minimum solvency margin on the last day of any financial year, such an insurer will also be prohibited, without the approval of the BMA, from declaring or paying any dividends during the next financial year. The Company is also prohibited from declaring or paying a dividend when it has failed to comply with its enhanced capital requirement, until such noncompliance is rectified. As of December 31, 2023, the Company exceeded all relevant capital requirements. The aggregate amount of dividends and capital distributions permitted to be made from the Company without a required approval from or a submission of an affidavit to the BMA during the year ended December 31, 2024 is $633.0 million. Dividends and capital distributions made by the Company during the year ended December 31, 2023 did not exceed the foregoing thresholds.

Statutory financial information

The Bermuda Insurance Act requires the Company to prepare and file statutory consolidated financial statements with the BMA in accordance with BMA prescribed or permitted practices that may differ from U.S. GAAP. For example, Bermuda statutory surplus differs from U.S. GAAP primarily due to a modification that permits the Company not to measure the embedded derivative included within certain funds withheld coinsurance agreements at fair value.

The Bermuda Insurance Act also requires the Company to maintain certain measures of solvency and liquidity. The Bermuda statutory consolidated financial statements form the basis for assessing the Company's liquidity, minimum solvency margin and class of registration. These consolidated financial statements in turn form the basis for the preparation of the insurer's economic balance sheet. The economic balance sheet approach is a principles-based valuation approach to determine an insurer's capital adequacy and is used as the basis for determination of the Company's enhanced capital requirement.

(13) Commitment and contingencies

Contingencies

Legal matters

As of the date of these consolidated financial statements, the Company is not involved in judicial, regulatory or arbitration matters. The Company expects that it may from time to time be involved in judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its business. The Company will at such time assess the reasonable probability that a loss may be incurred and reflect any such reasonably probable loss on its consolidated financial statements.

(14) Subsequent events

The Company evaluated all events and transactions through April 18, 2024, the date the accompanying consolidated financial statements were available to be issued that would merit recognition or disclosures in the consolidated financial statements, and with the exception of the matters disclosed below, determined that nothing arose that merits recognition or disclosure.

On January 5, 2024, the Company approved and recorded distributions of contributed surplus to its direct parent entity, FinCo, of approximately $86.0 million to be paid to FinCo on or around January 8, 2024.