

FINANCIAL STATEMENTS

Prosperity Life Assurance Limited
For the Period from March 5, 2020 (Date of Incorporation) to
December 31, 2020 and
Independent Auditors' Report

Prosperity Life Assurance Limited
Financial Statements
For the Period from March 5, 2020 (Date of Incorporation) to December 31, 2020

Contents

Independent Auditors' Report.....	1
Financial Statements	
Balance Sheet.....	2
Statement of Comprehensive Income	3
Statement of Shareholder's Equity	4
Statement of Cash Flows	5
Notes to Financial Statements.....	6

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of
Prosperity Life Assurance Limited

We have audited the accompanying financial statements of Prosperity Life Assurance Limited (the "Company"), which comprise the balance sheet as of December 31, 2020, and the related statements of comprehensive income, of shareholder's equity and of cash flows for the period from March 5, 2020 to December 31, 2020, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prosperity Life Assurance Limited, as of December 31, 2020, and the results of its operations and its cash flows for the period from March 5, 2020 to December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

Deloitte Ltd.

May 27, 2021

Prosperity Life Assurance Limited
Balance Sheet
(\$ in Thousands, except for par value)

	December 31, 2020
Assets	
Investments:	
Available-for-sale fixed maturity securities (amortized cost: 2020 - \$92,094)	\$ 93,019
Funds held by ceding companies	2,243,679
Total investments	2,336,698
Cash and cash equivalents	107,302
Reinsurance recoverables	65,931
Deferred acquisition costs	16,155
Other assets	199
Total assets	\$ 2,526,285
 Liabilities and Shareholder's Equity	
Liabilities:	
Future policy benefits	\$ 569,458
Policyholder funds	1,729,214
Reinsurance payables	24,355
Accrued expenses and other liabilities	33,676
Total liabilities	2,356,703
<i>Commitments and contingencies (Note 11)</i>	
Shareholder's equity	
Common stock, \$1 par value, 158,550,000 shares authorized, issued and outstanding	158,550
Accumulated other comprehensive income	995
Retained earnings	10,037
Total shareholder's equity	169,582
Total liabilities and shareholder's equity	\$ 2,526,285

See accompanying notes.

Prosperity Life Assurance Limited
Statement of Comprehensive Income
(*\$ in Thousands*)

	Period from March 5, 2020 (Date of Incorporation) to December 31, 2020
Revenues	
Premiums	\$ 576,585
Net investment income	6,746
Net investment gain	15,921
Total revenues	599,252
Benefits and expenses	
Life and annuity benefits	542,014
Health benefits	33,519
Interest credited to policyholder funds	4,112
Acquisition costs	2,527
Other expenses	7,043
Total benefits and expenses	589,215
Net income	10,037
Other comprehensive income	
Unrealized gain on available-for-sale securities	995
Total other comprehensive income	995
Comprehensive income	\$ 11,032

See accompanying notes.

Prosperity Life Assurance Limited
Statement of Shareholder's Equity
(\$ in Thousands)

	Common Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholder's Equity
Balance on March 5, 2020	\$ -	\$ -	\$ -	\$ -
Net income	-	-	10,037	10,037
Other comprehensive income	-	995	-	995
Issuance of common stock	158,550	-	-	158,550
Balance as of December 31, 2020	\$ 158,550	\$ 995	\$ 10,037	\$ 169,582

See accompanying notes.

Prosperity Life Assurance Limited
Statement of Cash Flows
(*\$ in Thousands*)

	Period from March 5, 2020 (Date of Incorporation) to December 31, 2020
Cash Flows from Operating activities	
Net income	\$ 10,037
Adjustments to reconcile net income to net cash provided by operating activities:	
Net investment income and investment related gains	(22,236)
Amortization of deferred acquisition costs	2,527
Net receipt at inception of reinsurance agreement	27,254
Funds held by ceding reinsurers	33,509
Insurance-related and policy-related liabilities	(3,481)
Net reinsurance payables	(39,628)
Policy acquisition costs, deferred	(682)
Other assets and liabilities	6,728
Net cash provided by operating activities	14,028
Cash Flows from Investing activities	
Proceeds from sales and maturities of available-for-sale securities	998
Purchases of available-for-sale securities	(66,274)
Net cash used in investing activities	(65,276)
Cash Flows from Financing activities	
Issuance of common stock	158,550
Net cash provided by financing activities	158,550
Net increase in cash and cash equivalents	107,302
Cash and cash equivalents, as of beginning-of-period	-
Cash and cash equivalents, as of end-of-period	\$ 107,302
Non-cash items	
Deposits on investment-type policies on funds withheld basis	3,087
Withdrawals on investment-type policies on funds withheld basis	4,238

See accompanying notes.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

For the Period from March 5, 2020
(Date of Incorporation) to December 31, 2020

1. Organization and Significant Accounting Policies

Organization and Operations

Prosperity Life Assurance Limited (the ‘Company’) is a Bermuda exempted company incorporated on March 5, 2020 as a wholly owned subsidiary of Irizaba Holdco UK Limited (‘Irizaba Holdco’). The Company is an indirect subsidiary of the ultimate parent, Prosperity Group Holdings L.P. (‘Prosperity’), a Bermuda exempted limited partnership.

The Company provides life, annuity and accident and health reinsurance solutions. On May 14, 2020, the Company was registered with the Bermuda Monetary Authority (‘BMA’) as a Class E long-term insurer under the Insurance Act 1978 and related regulations.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (‘GAAP’).

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those based on these estimates and assumptions. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets, other-than-temporary impairment determinations, deferred acquisition costs (‘DAC’), future policy benefits, the potential effects of resolving litigated matters and derivatives valuation, including embedded derivatives.

Risks and Uncertainties

The Company operates in a business environment that is subject to various risks and uncertainties. Such risks and uncertainties include, but are not limited to, interest rate risk, market risk, credit risk, legal and regulatory changes, and investment risk.

Interest rate risk is the potential for interest rates to change, which can cause fluctuations in the value of investments, the liabilities for future policy benefits, and the carrying amount of DAC. Market risk is the potential for market values to change, which can cause fluctuations in certain policyholder funds and contract charges. Credit risk is the risk that issuers of investments owned by the Company may default or that other parties may not be able to pay amounts due to the Company. The Company is also under the jurisdiction of the Bermuda Monetary Authority. The potential exists for changes in regulatory requirements, which can result in additional, unanticipated impacts to the Company.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

1. Organization and Significant Accounting Policies (continued)

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of certain investment securities, it is at least reasonably possible that changes in value, even as soon as immediately subsequent to the issuance of the financial statements, could materially affect then-current valuation as compared to the amounts as reported in the financial statements.

The novel coronavirus ('COVID-19') pandemic continues to spread in the United States and throughout the world, and has created and may continue to create extreme stress and disruption in the global economy and financial markets, as well as elevated mortality and morbidity experience for the global population. The ultimate extent of the impact will depend on numerous factors, all of which are highly uncertain and cannot be predicted. These factors include the length and severity of the outbreak, including the impact of new variants of the virus and the efficacy of vaccines and therapeutic treatments in combating the virus, the effectiveness of responses to the pandemic taken by governments and private sector businesses, and the impacts on our customers, employees and vendors. The Company continues to monitor the economic environment and other potential impacts relating to the COVID-19 pandemic as it relates to the risks described below on its insurance liabilities, investment portfolio and business operations.

Summary of Significant Accounting Policies

Fair Value Measurement

Certain assets and liabilities are reported or disclosed at fair value in the financial statements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

GAAP guidance includes a fair value hierarchy that categorizes the inputs to the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

See Note 4 for additional information with respect to fair value measurements.

Investments

Fixed Maturity

Investments in fixed maturity securities classified as available-for-sale ('AFS') are reported at fair value and unrealized gains or losses on these securities are included within accumulated other comprehensive income ('AOCI').

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

1. Organization and Significant Accounting Policies (continued)

Dividends and interest income, recorded in net investment income, are recognized when earned. Amortization of premiums and accretion of discounts on investments in debt securities are recorded in net investment income over the contractual terms of the investments in a manner that produces a constant effective yield. Realized gains and losses on sales of investments are recognized using the specific identification method. Purchase and sales of investments are recorded on the trade-date basis.

Included within fixed maturities are loan-backed securities, including asset-backed securities ('ABS'), residential mortgage-backed securities ('RMBS'), commercial mortgage-backed securities ('CMBS') and other structured securities. Income on loan-backed and other structured securities is recognized using a constant effective yield based on anticipated cash flows and the estimated economic life of the securities. Prepayment assumptions are obtained from external sources or internal estimates. Significant changes to the cash flow assumptions from the original purchase assumptions are accounted for utilizing the prospective method.

Funds Held by Ceding Companies

Funds held by ceding companies represents receivables for amounts contractually withheld by ceding companies in accordance with funds withheld reinsurance agreements in which the Company acts as the reinsurer. Generally, assets equal to statutory reserves, net of reinsurance, are withheld and legally owned by the ceding company and any excess or shortfall is settled periodically. The underlying agreements, which represents host contracts equivalent to debt receivables with a rate of interest equal to the book yields, contain an embedded derivative as discussed below. Investment income on funds held by ceding companies is equal to the interest income earned on these segregated assets.

The Company accounts for the embedded derivatives in modified coinsurance and funds withheld contracts as total return swaps. Accordingly, the value of the derivative is equal to the unrealized gain or loss on the assets underlying the funds withheld portfolio associated with each agreement. The Company's funds held by ceding company are recorded at fair value with the changes in the fair value of the embedded derivative reflected in net investment gain in the Statement of Comprehensive Income.

Refer to Note 5 for further information on the Company's derivative instruments.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

1. Organization and Significant Accounting Policies (continued)

Other-Than-Temporary Impairment ('OTTI')

The Company periodically evaluates its AFS investments to determine whether there has been an other-than-temporary decline in fair value below the amortized cost basis. Inherent in the Company's evaluation of a particular security are assumptions and estimates about the operations of the issuer and its future earnings potential. An impaired security is considered other-than-temporary if: (1) the Company has the intent to sell the security as of the balance sheet date; (2) it is more likely-than-not that a security will be required to be sold; or (3) the entire amortized cost of a security is not expected to be recovered based on the net present value of the cash flows. Some of the factors considered in evaluating the cash flows for a security are: (1) the duration and extent to which the fair value has been less than cost for equity securities or amortized cost for fixed maturities; (2) the financial condition, near-term prospects, and long-term prospects of the issuer, including relevant industry conditions and trends; (3) with respect to structured securities, changes in forecasted cash flows after considering the quality of underlying collateral, expected prepayment speeds, current and forecasted loss severity, consideration of the payment terms of the underlying assets backing a particular security, and the payment priority within the tranche structure of the security; (4) the specific reasons that a security is in a significant unrealized loss position, including market conditions that could affect access to liquidity; (5) the payment structure of the security; (6) a downgrade in the rating for a security; and (7) dividends or interest have been reduced or eliminated.

If the Company intends to sell a debt security with a fair value that is below the amortized cost, or if it is more likely-than-not the Company will be required to sell a debt security before recovery of its amortized cost basis, an OTTI is recorded by reducing the amortized cost to current fair value, with a corresponding charge to net investment gain on the Statement of Comprehensive Income. If the Company does not intend to sell a debt security with a fair value that is below amortized cost, or it is not more likely-than-not the Company will be required to sell a debt security before recovery of its amortized cost basis but the present value of the cash flows expected to be collected is less than the amortized cost of the debt security (referred to as the credit loss), an OTTI has occurred and the amortized cost is reduced to the estimated recovery value with a corresponding charge to net investment gain on the Statement of Comprehensive Income, as this amount is deemed the credit portion of the OTTI. The remainder of the decline to fair value is recorded in AOCI as unrealized OTTI on AFS securities in the Statement of Comprehensive Income, as this amount is considered a noncredit (i.e., recoverable) impairment.

When assessing the intent to sell a debt security or if it is more likely-than-not the Company will be required to sell a debt security before recovery of the cost basis, the Company evaluates facts and circumstances such as, but not limited to, decisions to reposition the security portfolio, sale of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing. In order to determine the amount of the credit loss for a debt security, the Company calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and expected future cash flows. The discount rate is the effective interest rate implicit in the underlying debt security. The effective interest rate is the original yield or the effective interest rate at the date of impairment if the debt security was previously impaired.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

1. Organization and Significant Accounting Policies (continued)

In periods subsequent to the recognition of an OTTI, the AFS security is accounted for as if it had been purchased on the measurement date of the OTTI. Therefore, for the fixed maturity AFS security, the original discount or reduced premium is reflected in net investment income over the contractual term of the investment in a manner that produces a constant effective yield.

With respect to an investment in an equity security, if the decline in fair value is determined to be other than temporary, a loss in the entire amount of the impairment is reflected in net investment gain in the Statement of Comprehensive Income. Upon recognizing an OTTI, the new cost basis of the security is the previous cost basis less the OTTI recognized in net investment gain.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less when purchased. These assets are reported at cost, which approximates fair value.

Deferred Acquisition Costs ('DAC')

DAC consists of costs related to initial ceding commissions and other costs related to the successful acquisition of reinsurance agreements. These costs have been deferred and recorded as an asset.

Deferred costs related to traditional life insurance contracts, all of which relate to long duration contracts, are amortized generally over the premium-paying period, in proportion to the ratio of individual period premium revenues to total anticipated premium revenues over the amortization period or over or over number of policies inforce, if the policies are out of premium-paying period. Such anticipated premium revenues are estimated using the same assumptions used for computing liabilities for future policy benefits. DAC related to interest sensitive insurance products, such as universal life and annuities, are recognized as expense over the term of the policies in proportion to projected runoff of policyholder account values.

The Company evaluates the recoverability of DAC on an annual basis, including at issuance. If it is determined that the deferred costs are not recoverable, a cumulative charge is recorded in the current period. No such adjustments were made during 2020.

Reinsurance

The Company assumes insurance and investment contracts under funds withheld agreements. Reinsurance accounting is applied to business assumed where the risk transfer criteria 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.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

1. Organization and Significant Accounting Policies (continued)

Assets and liabilities assumed under funds withheld reinsurance contracts are presented gross on the Balance Sheet. The fair value of the consideration received for business assumed which meets risk transfer requirements is included in the premiums line of the Statement of Comprehensive Income. Changes to assumed reserves and benefits paid are presented net in the life and annuity benefits line or health benefits line.

When the fair value of the consideration received for reinsurance transactions is greater than the liabilities reinsured, the resulting deferred gain is recognized as either deferred profit liability ('DPL') if related to traditional life insurance contracts or unearned revenue reserve ('URR') if related to interest sensitive contracts. The consideration received is calculated as the fair value of any assets received, exclusive of any ceding commission paid or payable. DPL and URR is included on the Balance Sheet within the applicable reserves balance to which it relates and are earned using the methodology consistent with DAC.

Accounting for reinsurance requires the use of assumptions, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. The Company attempts to minimize counterparty risk credit risk through the structuring of the terms of the reinsurance agreements, including the use of trusts and the monitoring of credit ratings of the counterparties for signs of declining credit quality.

Other Assets and Other Liabilities

Other assets are comprised primarily of amounts receivable from investments transactions and accrued investment income.

Other liabilities are comprised primarily of amounts payable for investment transactions, amounts due to affiliates and payroll and general expense accruals.

Commission and Expense Allowances

Commission and expense allowances are the costs reimbursed under the reinsurance agreements that are related to the production of new business and the maintenance of existing reinsured policies. Commission and expense allowances are accounted for on a basis consistent with that used in accounting for the underlying reinsured contracts and the terms of the reinsurance agreements.

Future Policy Benefits and Policyholder Funds

The Company establishes and carries actuarially-determined reserves that are calculated to meet its future obligations. Future policy benefits are comprised of traditional life, payout annuities with life contingencies and accident and health insurance contracts. Future policy benefits are established using accepted actuarial valuation methods which require the use of assumptions related to expenses, investment yield, mortality, morbidity, withdrawals and persistency based on historical experience projected at the time of policy issue or policy purchase date, as appropriate.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

1. Organization and Significant Accounting Policies (continued)

The average discount rates used to compute the Company's reserves for future policy benefits are as follows:

	<u>2020</u>
Traditional life insurance	2.50%
Payout annuities with life contingencies	3.86%
Accident and health	2.40%

Policyholder funds include fixed deferred annuities and payout annuities without life contingencies. Liabilities associated with deferred annuities generally represent the account values before any applicable surrender charges. The Company records as revenue any amounts charged against the reserves for the cost of insurance, policy administration, and surrender penalties. Any interest credited to the reserves and any benefit payments that exceed the contract liability account balance are recorded as expenses. Liabilities for payout annuities without life contingencies are calculated as the present value of future liability cash flows discounted at contractual interest rates.

On an annual basis, the Company performs loss recognition testing ("LRT") to determine whether a premium deficiency exists. A premium deficiency exists if the current reported reserves plus the present value of future premiums are not sufficient to cover the present value of future benefits and expenses. LRT is only relevant to life insurance contracts. As of December 31, 2020, there was no premium deficiency identified as part of LRT.

Reinsurance Recoverables and Reinsurance Payables

Reinsurance recoverables include contractual balances due from ceding companies.

Reinsurance payables include unpaid claims which are based upon estimates of payments to be made for the life and health claims incurred whether reported or unreported and net settlements due to ceding companies.

Premium Recognition

Assumed reinsurance premiums related to insurance contracts are recognized as revenue when due from the ceding companies. For investment contracts, not meeting risk transfer criteria, premiums collected are reported as deposits to policyholder funds.

Other Comprehensive Income

Comprehensive income includes both net income and other items of comprehensive income comprised of unrealized gains and losses on investment securities classified as AFS.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

1. Organization and Significant Accounting Policies (continued)

Commitments and Contingencies

Contingencies arising from regulatory judgments, noninsurance claims, assessments, guarantees, litigation, fines, penalties and other sources are recorded when deemed probable and reasonably estimable.

Future Adoption of New Accounting Standards

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Credit Losses* ('ASU 2016-13'), which replaces the current incurred loss impairment methodology with a broader range of reasonable and supportable credit loss assumptions. The new guidance will require that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down of the investment balance. In each subsequent period, the entity would be allowed to record reversals of credit losses in the current period net income in order to align the income statement recognition of credit losses with the reporting period in which changes occur. The provisions of the ASUs are effective for non-public entities on January 1, 2023 and early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

Long Duration Insurance Contracts

In August 2018, the FASB issued ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts* ('ASU 2018-12'), which amends the accounting model under U.S. GAAP for certain long-duration insurance contracts and requires insurers to provide additional disclosures in annual and interim reporting periods. The guidance requires insurance entities to update, on retrospective basis, the assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts at least annually with the changes recognized through net income. This includes use of an upper-medium grade (low-credit-risk) fixed income discount rate that is required to be updated quarterly with changes recorded through accumulated other comprehensive income. The updated guidance also changes the amortization method of DAC and the measurement of market risk benefits.

The guidance significantly impacts the accounting for the traditional and limited-pay contracts. The provisions of the ASUs are effective for non-public entities on January 1, 2025 and early adoption is permitted. The Company is currently evaluating the impact of this guidance with an expectation that the updated guidance will have a significant impact on its consolidated financial statements.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

2. Investments

AFS Securities

The cost or amortized cost, gross unrealized gains, gross unrealized losses, estimated fair value of AFS fixed maturities and OTTI included in AOCI, are as follows:

	December 31, 2020				
	Amortized Cost	Allowance for Credit Losses	Gross Unrealized		Estimated Fair Value
			Gains	Losses	
Fixed maturity AFS securities:					
RMBS	\$ 55,395	\$ –	\$ 903	\$ 14	\$ 56,284
Other bonds	36,629	–	106	–	36,735
Total fixed maturity AFS securities	<u>\$ 92,024</u>	<u>\$ –</u>	<u>\$ 1,009</u>	<u>\$ 14</u>	<u>\$ 93,019</u>

The Company has no unrealized gains (losses) on securities previously recognized as OTTI.

Gross unrealized losses (including noncredit impairments) and the fair value of the Company's AFS securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	December 31, 2020				
	Less Than 12 Months		12 Months or Greater		Total
	Unrealized Fair Value	Unrealized Losses	Unrealized Fair Value	Unrealized Losses	Unrealized Fair Value
RMBS	\$ 7,952	\$ 14	\$ –	\$ –	\$ 7,952
					\$ 14

At December 31, 2020, the Company had no AFS securities which had been in an unrealized loss position for 12 months or more.

The Company believes the unrealized loss positions as of December 31, 2020 do not represent OTTI as there is no intention to sell these fixed maturity AFS securities, it is not more likely-than-not that the Company will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis, the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities, or the Company has the ability and intention to hold the equity securities for a period of time sufficient for recovery. Further, as of December 31, 2020, the Company had the ability to generate adequate amounts of cash from normal operations (e.g., reinsurance premiums and fees, investment income, and return of principal) to meet cash requirements without requiring the sale of any temporarily impaired securities.

The Company did not recognize any OTTI losses for the period ended December 31, 2020.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

2. Investments (continued)

The amortized cost and fair value of AFS fixed maturity securities by contractual maturity, are shown below:

	December 31, 2020	
	Amortized Cost	Fair Value
Due within one year	\$ -	\$ -
Over one year through five years	-	-
Over five years through ten years	-	-
Over ten years	-	-
Subtotal	-	-
CMBS	-	-
RMBS	55,395	56,284
Other structured securities	36,629	36,735
Total fixed maturity AFS securities	\$ 92,024	\$ 93,019

Actual maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Net Investment Income

Major categories of net investment income are summarized as follows:

	Period ended December 31, 2020
Fixed maturity AFS securities	\$ 200
Funds held by ceding companies (Note 3)	6,316
Other	247
Cash and cash equivalents	4
Investment income	6,767
Investment expenses	(21)
Net investment income	\$ 6,746

Net investment gain

The detail of net investment gain by class of investment is summarized as follows:

	Period ended December 31, 2020
Fixed maturity AFS securities:	
Gross gains	\$ -
Gross losses	-
Net realized investment gain on AFS securities	\$ -
Net realized gains on funds held by ceding companies	15,921
Total net investment gain	\$ 15,921

Proceeds from sales of AFS securities were \$0 for the period ended December 31, 2020

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

2. Investments (continued)

Concentrations of Financial Risk

As of December 31, 2020, the Company's two most significant exposures to a single issuer, other than the U.S. government and its agencies, were investments in Anchor Credit Funding Ltd. and Towd Point Mortgage Trust securities with fair values of \$21 million and \$18 million, respectively, or 11% and 9% of the combined cash, cash equivalents and investment portfolios, respectively. These investments are included as fixed maturities in the tables above.

3. Funds Held by Ceding Companies

Funds held by ceding companies consist mainly of amounts retained by the ceding company. The assets are held in trust or custodial accounts that are legally segregated from other assets of the cedants. The Company is exposed to the investment performance of the underlying assets, as if the assets were directly owned by the Company. The risk of loss to the Company due to the insolvency of a ceding company is mitigated by the Company's contractual right to offset amounts it owes the ceding company for claims or allowances with amounts owed to the Company from the ceding company. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance on the funds withheld assets in a fashion similar to its invested assets.

The assets supporting the funds withheld as of December 31, 2020 were as follows:

	<u>December 31, 2020</u>
Fixed maturity AFS securities	
U.S. government and agency	\$ 4,440
Foreign government	1,203
U.S. corporate securities	1,895,523
Foreign corporate securities	25,814
State and municipal	26,321
RMBS	61,022
Other bonds	99,264
Total Fixed maturity AFS securities	\$ 2,113,587
Short-term investments	\$ 31,022
Cash and cash equivalents	82,657
Other assets and liabilities	16,413
Total	\$ 2,243,679

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

4. Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating the fair value disclosures for financial instruments in the accompanying consolidated financial statements and notes thereto:

	December 31, 2020	
	Carrying Value	Total Estimated Fair Value
Cash and cash equivalents	\$ 107,302	\$ 107,302
Fixed maturity AFS securities	92,024	93,019
Funds held by ceding reinsurers	2,243,679	2,243,679
Accrued investment income ¹	187	187
Deposit-type insurance contracts	1,600,924	1,600,924

¹ *Included within other assets on the Balance Sheet*

Investment securities – The fair values of the Company’s investments are disclosed in Note 2. Fair value for these instruments is based on the price published by a third-party pricing service, if available. If not available, the Company measures the fair value of investments based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the investment, and is consistently applied to measure the investment’s fair value. The Company’s fair value measurement is based on a market approach which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include: third-party pricing services, independent broker quotations, and pricing matrices. The Company uses observable and unobservable inputs in its valuation methodologies. For securities valued through third-party pricing services, the Company gains an understanding of the fair value inputs and pricing methodologies at the service provider in determining the appropriateness of the fair value measurements provided.

Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators, and industry and economic events are monitored. For certain investments, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only investments, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. In order to validate the pricing information and broker-dealer quotes, the Company employs, where possible, procedures that include comparisons with similar observable positions, comparisons with subsequent sales and discussions with brokers as well as observations of general market movements for those security classes. For those securities trading in less liquid or illiquid markets with limited or no pricing information, the Company relies on its third-party investment manager to provide valuations, which the Company subsequently reviews independently for reasonableness.

Generally, the Company does not adjust prices received from third parties; however, the Company does analyze the third-party pricing services’ valuation methodologies and related inputs and performs additional evaluation to determine the appropriate level within the fair value hierarchy.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

4. Fair Value of Financial Instruments (continued)

Funds Held by Ceding Companies – The fair value of embedded derivatives associated with funds withheld reinsurance treaties is determined based upon a total return swap methodology with reference to the fair value of the investments held by the ceding company that support the Company’s funds withheld at interest asset. The fair value of the underlying assets is generally based on market observable inputs using market valuation methodologies.

Cash and cash equivalents – The carrying amount of cash and cash equivalents approximates fair value.

Deposit-type insurance contracts – Deposit-type contracts are investment-type contracts which are included within policyholder funds on the Consolidated Balance Sheet. The fair values of the account balance for such investment contracts are based on their approximate surrender values.

Other assets and liabilities considered financial instruments, such as accrued investment income are generally of a short-term nature, and as such, their carrying values are deemed to approximate fair value.

The fair values of the Company’s liabilities for insurance contracts other than investment type contracts are not required to be disclosed. However, the fair values of liabilities for all insurance contracts are taken into consideration in the Company’s overall management of interest rate risk, such that the Company’s exposure to changing interest rates is minimized through the matching of investment maturities with amounts due for insurance contracts.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets that are either directly or indirectly observable for the asset or liability; and
- Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity uses its own assumptions and estimates about the assumptions market participants would use in pricing the asset or liability, including assumptions regarding risk.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

4. Fair Value of Financial Instruments (continued)

The following table summarizes the Company's assets measured at fair value on a recurring basis:

	Period ended December 31, 2020			Total Fair Value
	Level 1	Level 2	Level 3	
Fixed maturity AFS securities:				
CMBS	\$ -	\$ -	\$ -	\$ -
RMBS	-	56,284	-	56,284
Other bonds	-	36,735	-	36,735
Funds held by ceding companies	82,657	2,161,022	-	2,243,679
Cash and cash equivalents	107,302	-	-	107,302
Total assets measured at fair value	\$ 189,959	\$ 2,254,041	\$ -	\$ 2,444,000

The Company has no assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2020.

The Company had no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period ended December 31, 2020.

The Company has no financial instruments not measured at fair value on a recurring basis.

5. Derivative Instruments

Embedded Derivatives

The Company's embedded derivative related to funds withheld agreements is reported at fair value in funds held by ceding companies on the Balance Sheet with a value of \$14,139 as of December 31, 2020. The Company recorded a gain of \$14,139 on the embedded derivative for the period ended December 31, 2020. The embedded derivative gains and losses are reported within the net investment gain line on the Statement of Comprehensive Income.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

6. Reinsurance

The following summarizes the effect of reinsurance on premiums and life and annuity benefits and health benefits on the Statement of Comprehensive Income:

	Period ended December 31, 2020
Premiums	
Reinsurance assumed	\$ 576,585
Total premiums	\$ 576,585
Life and annuity benefits and health benefits	
Reinsurance assumed	\$ 575,533
Total life and annuity benefits and health benefits	\$ 575,533
Interest credited to policyholder funds	
Reinsurance assumed	\$ 4,112
Total interest credited to policyholder funds	\$ 4,112

Reinsurance typically provides for recapture rights on the part of the ceding company for certain events of default. Additionally, some reinsurance agreements require the Company to place assets in trust accounts for the benefit of the ceding company. The required minimum assets are determined by statutory reserves, as defined by the agreements and were \$62,406 as of December 31, 2020. Although the Company owns the assets placed in trust, their use is restricted based on the trust agreement terms. If the book value of the assets in the trust decline because of impairment or other reasons, the Company may be required to contribute additional capital to the trust.

Reinsurance transactions

On July 1, 2020, the Company entered into a funds withheld agreement with National Guardian Life Insurance Company ('NGL') to reinsure a block of traditional life policies, accident and health policies and deferred annuities. The following summarizes this reinsurance transaction:

	NGL
Liabilities assumed	\$ 413,901
Less: Assets received	440,519
Ceding commission (paid) received	(18,000)
Net cost of reinsurance	\$ (8,618)
DAC	18,000
Unearned revenue reserve ¹	(9,000)
Deferred profit liability ²	(17,618)
Net cost of reinsurance	\$ (8,618)

¹Included within policyholder funds on the Balance Sheet

²Included within Future policy benefits on the Balance Sheet

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

6. Reinsurance (continued)

On December 31, 2020, the Company entered into a funds withheld agreement with National Western Life Insurance Company ('NWL') to reinsure a block of deferred and immediate annuities. The following summarizes this reinsurance transaction:

	NWL
Liabilities assumed	\$ 1,722,782
Less: Assets received	1,816,844
Ceding commission (paid) received	48,000
Net cost of reinsurance	\$ (142,062)
DAC	-
Unearned revenue reserve ¹	(121,641)
Deferred profit liability ²	(20,421)
Net cost of reinsurance	\$ (142,062)

¹Included within policyholder funds on the Balance Sheet

²Included within Future policy benefits on the Balance Sheet

7. Deferred Acquisition Costs

The following represents a roll forward of deferred acquisition costs ('DAC'):

Balance as of March 5, 2020	\$ -
Deferrals	18,682
Amortization, net of interest	(2,527)
Balance as of December 31, 2020	\$ 16,155

8. Reserves

The following table summarizes the policyholder funds and future policy benefits by product:

	December 31, 2020
Traditional life insurance	\$ 185,271
Accident and health contracts	31,337
Deferred annuities	1,663,888
Payout annuities	418,176
Total	\$ 2,298,672

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands, except for par value*)

9. Equity

Common stock

The Company has issued one class of common stock, which represents 100% of the total voting power and is beneficially owned by Irizaba Holdco. Total authorized capital of \$158,550 is comprised of 158,550 shares at par value of \$1 each, all of which has been issued to Irizaba Holdco.

Accumulated other comprehensive income ('AOCI')

The following provides the details and changes in AOCI:

	Period Ended December 31, 2020
Unrealized gain on AFS Securities	
Balance as of beginning of period	\$ -
Unrealized holding gains arising during the period	995
Balance as of end of period	\$ 995

10. Income Taxes

The Company is incorporated under the laws of Bermuda and under Bermuda law is not required to pay taxes in Bermuda based upon income or capital gains. The Company, under the Exempted Undertakings Tax Protection Act of 1966, is protected against any legislation that may be enacted in Bermuda which would impose any tax on profits, income or gain until March 31, 2035.

11. Commitments and Contingencies

Contingencies arising from regulatory judgments, noninsurance claims, assessments, guarantees, litigation, fines, penalties and other sources are recorded when deemed probable and reasonably estimable.

Various lawsuits against the Company may arise in the course of the Company's business. Contingent liabilities arising from litigation, income taxes, and other matters are not considered material in relation to the financial position of the Company.

The Company has a commitment to make an investment to a non-affiliated partnership interest of \$38,490 to be funded in 2021.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

12. Statutory Information

The Company is licensed by the Bermuda Monetary Authority ('BMA') as a Class E long-term insurer and is subject to the Insurance Act 1978 (the 'Act'), as amended and regulations promulgated thereunder. Under the Act, the Company is required to prepare and file three sets of financial statements:

- 1) *GAAP Financial Statements* – Financial statements prepared in accordance with an internationally recognized comprehensive base of accounting and for which the Company has elected to prepare US GAAP financial statements. These financial statements form the basis for the preparation of both the Statutory Financial Statements and the Economic Balance Sheet.
- 2) *Statutory Financial Statements ('SFS')* – Financial statements are equal to GAAP financial statements adjusted for:
 - a. Prudential filters that include adjustments to eliminate non-admitted assets including goodwill, prepaid assets and other similar intangible assets not considered admissible for solvency purposes and adjustments to include certain assets and liabilities that are generally off-balance sheet under general purposes reporting. These include items such as guarantees and other instruments that do not relate to the insurer's own insurance contracts.
 - b. Directions issued by the BMA
- 3) *Economic Balance Sheet ('EBS')* – A balance sheet composed of assets which are recorded on a GAAP fair value basis and insurance reserves which are based on technical provisions comprised of the sum of a best estimate liability plus a risk margin. The best estimate liability may be calculated by applying the standard approach or scenario approach. Under the standard approach, the discount rate for insurance reserves is a rate prescribed by the BMA. Under the scenario approach, the discount rate for insurance reserves is based on the yield on eligible assets owned by the insurer as determined under the worst result of nine prescribed scenarios.

The Company is also required to maintain minimum solvency capital and surplus to meet the minimum solvency ('MMS') and minimum economic statutory capital and surplus to meet the Enhanced Capital Requirement ('ECR'). For Class E insurers, the MMS is equal to the greater of \$8 million or 2% of the first \$500 million of Statutory Financial Statement ('SFS') assets plus 1.5% of SFS assets above \$500 million, subject to a floor of 25% of the ECR. As of December 31, 2020, the Company was in excess of the minimum levels required.

Under the Act, the Company is subject to capital requirements calculated using Bermuda Solvency and Capital Requirement ('BSCR'), which is a standardized statutory risk-based capital model used to measure risk associated with the Company's assets and liabilities. Under the BSCR, the required capital and surplus is referred to as the Enhanced Capital Requirement ('ECR') The ECR is equal to the higher of the BSCR and the MSM. The BMA requires all Class E insurers to maintain their capital at a target level which is 120% of the BSCR. As of December 31, 2020, the Company held capital in excess of the target level.

Prosperity Life Assurance Limited
Notes to Financial Statements
(*\$ in Thousands*)

12. Statutory Information (continued)

The Company has received a directive from the BMA which provides permission to ignore the effects of the Derivatives Implementation Group Statement 133 Implementation Issue No. B36 ('DIG B36'). For the period ended December 31, 2020, the net income in these financial statements differs to net income in the SFS by \$14,139, due to the permitted practice.

The Company is prohibited from declaring or paying a dividend if its statutory capital and surplus is less than its ECR or if it's in breach of its solvency margin or if the declaration or payment of such dividend would cause a breach. Further, as a Class E insurer, the Company is prohibited from declaring or paying a dividend of more than 25% of its total statutory capital and surplus from the prior year unless it files with the BMA an affidavit attesting that a dividend in excess of this amount would not cause the Company to fail to meet its relevant margins. Further, the Company cannot reduce its statutory capital and surplus by more than 15% of the prior year's statutory capital and surplus without BMA approval.

13. Related Parties

The Company is party to a service agreement with its affiliates, Prosperity Services Group LLC ('PSG') and Prosperity Services Limited ('PSL'), each a wholly owned subsidiary of PGH, under which PSG and PSL provide certain accounting, actuarial, investment and administrative services to the Company (the 'Services Agreement'). During the period, the Company incurred \$2,205, respectively for these services. Amounts due to affiliates as at December 31, 2020 were primarily related to the Services Agreement.

The Company reported the following amounts due to affiliates as of December 31:

Due to Affiliates	December 31, 2020
Prosperity Services Group LLC	\$ 940
Prosperity Group Holdings LP	652
Prosperity Services Limited	517
Shenandoah Life Insurance Company	87
Total¹	<u>\$ 2,196</u>

¹ Included within Accrued Expenses and Other Liabilities in the Balance Sheet

Intercompany receivable and payable balances are evaluated on an individual company basis and are generally settled monthly.

The Company paid a fee of \$1,085 in 2020 to WAND Management Services LLC ('WAND'), a limited liability company controlled by certain Board Members of Prosperity, in exchange for various management and advisory services provided by WAND.

Prosperity Life Assurance Limited
Notes to Financial Statements
(\$ in Thousands)

14. Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through May 27, 2021, the date on which these financial statements were available to be issued, and determined there are no other items to disclose.