Financial Statements and Report of Independent Certified Public Accountants

Oceanview Reinsurance Ltd.

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

For the years ended December 31, 2020 and 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholder
Oceanview Reinsurance Ltd.

We have audited the accompanying financial statements of Oceanview Reinsurance Ltd. (a Bermuda limited corporation and wholly owned subsidiary of Oceanview Holdings, Ltd.), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income and comprehensive income, changes in stockholder's equity, and cash flows for the years then ended, 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.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 entity'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 entity'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 Oceanview Reinsurance Ltd. as of December 31, 2020 and 2019, 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.

Grant Thornton LLP

Hartford, Connecticut
March 29, 2021

Oceanview Reinsurance Ltd.

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

BALANCE SHEETS

December 31, 2020 and 2019

(U.S. Dollars in Thousands)

	2020	2019
Assets:		
Available-for-sale securities, at fair value (cost of $12,846 and $186,455, respectively)	$ 12,535	$ 187,982
Funds withheld asset ($8,319 and ($50), respectively, at fair value)	1,834,265	109,580
Cash and cash equivalents	15,196	56,107
Restricted cash	800	2,714
Derivative asset, at fair value (cost of $0 and $0, respectively)	1,649	119
Deferred acquisition costs, net	189	325
Interest receivable	11	137
Due from broker-dealers	2,512	10,870
Other	60	88
Total assets	$ 1,867,217	$ 367,922
Liabilities:		
Insurance reserves	$ 1,660,995	100,070
Accounts payable and accrued expenses	33,804	847
Derivative liability, at fair value (cost of $0 and $0, respectively)	1,415	35
Due to related parties	42,000	4
Amounts due under repurchase agreements	—	142,272
Deferred profit liability	22,891	—
Ceding commission payable	115	—
Total liabilities	1,761,220	243,228
Stockholder's Equity:		
Common stock, par value $1.00 per share, 250,000 shares authorized, issued, and outstanding	250	250
Additional paid-in capital	77,850	102,850
Retained earnings	28,202	20,066
Accumulated other comprehensive (loss) income	(305)	1,528
Total stockholder's equity	105,997	124,694
Total liabilities and stockholder's equity	$ 1,867,217	$ 367,922

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

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

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Years Ended December 31, 2020 and 2019
(U.S. Dollars in Thousands)

	2020	2019
Revenues:		
Net investment income	$ 2,830	$ 26,839
Net investment (loss) gains	(1,575)	6,754
Net derivative gains	4,239	1,265
Income from reinsurance	10,872	126
Total revenues	16,366	34,984
Expenses:		
Interest expense	464	15,024
General and administrative	2,803	2,982
Interest sensitive contract benefits	2,599	—
Professional fees	934	418
Commissions on reinsurance, net of DAC	1,430	—
Total expenses	8,230	18,424
Net income	$ 8,136	$ 16,560
Other comprehensive (loss) income:		
Unrealized (loss) income on available-for-sale securities, net	(1,833)	21,516
Comprehensive income	$ 6,303	$ 38,076

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

Oceanview Reinsurance Ltd.

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

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

For the Years Ended 31 December, 2020 and 2019

(U.S. Dollars in Thousands Except Number of Shares)

	Number of Shares	Common stock $1 par value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, at December 31, 2018	250,000	$ 250	$ 156,850	$ 3,506	$ (19,988)	$ 140,618
Net income	—	—	—	16,560	—	16,560
Other comprehensive income	—	—	—	—	21,516	21,516
Capital contribution	—	—	21,000	—	—	21,000
Capital distribution	—	—	(75,000)	—	—	(75,000)
Balance at December 31, 2019	250,000	250	102,850	20,066	1,528	124,694
Net income	—	—	—	8,136	—	8,136
Other comprehensive loss	—	—	—	—	(1,833)	(1,833)
Capital contribution	—	—	20,000	—	—	20,000
Capital distribution	—	—	(45,000)	—	—	(45,000)
Balance at December 31, 2020	250,000	$ 250	$ 77,850	$ 28,202	$ (305)	$ 105,997

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

Oceanview Reinsurance Ltd.

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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2020 and 2019

(U.S. Dollars in Thousands)

	2020	2019
Cash flows from operating activities:		
Net income	$ 8,136	$ 16,560
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Accretion of securities premium	122	306
Net investment gains	1,575	(6,754)
Net derivative gains	(4,239)	(1,265)
Net change in:		
Accounts receivable	8,385	—
Deferred acquisition cost	(35,452)	(325)
Interest receivable	126	442
Due from broker-dealers	—	(10,870)
Other	—	(88)
Accounts payable and accrued expenses	33,259	(541)
Due to related parties	2	(10)
Net cash provided by (used in) operating activities	11,914	(2,545)
Cash flows from investing activities:		
Purchases of whole loan investments	(168,375)	—
Proceeds from sale and liquidations of whole loan investments	163,069	—
Purchases of available-for-sale securities	(15,551)	(275,243)
Sales of available-for-sale securities	192,774	806,568
Net receipts for derivatives	4,089	1,182
Net cash provided by investing activities	176,006	532,507
Cash flows from financing activities:		
Payments for reinsurance agreements on investment and deposit-type contracts, net	(105,281)	(9,510)
Proceeds from note payable	42,000	—
Borrowings under repurchase agreements	236,210	1,211,560
Repayments under repurchase agreements	(378,674)	(1,633,186)
Capital contribution	20,000	21,000
Capital distribution to shareholders	(45,000)	(75,000)
Net cash used in financing activities	(230,745)	(485,136)
Net (decrease) increase in cash, cash equivalents and restricted cash	(42,825)	44,826
Cash, cash equivalents and restricted cash, beginning of year	58,821	13,995
Cash, cash equivalents and restricted cash, end of year	$ 15,996	$ 58,821
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 272	$ 15,988
Deposits on deposit-type contracts through reinsurance agreement	$ 553,115	$ 100,070
Deposits on investment-type contracts through reinsurance agreement	$ 1,006,927	$ —

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

NOTE A - ORGANIZATION

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

Oceanview Asset Management, LLC (the “Management Company” and a wholly-owned subsidiary of Bayview), a Delaware limited liability company, provides investment advice and directs the investments in structured products and other related assets (“Portfolio Assets”). See NOTE K – Related Party Transactions.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include the valuation of available-for-sale securities and derivatives (including embedded derivatives) Actual results could differ from those estimates.

Available-for-Sale Securities, at Fair Value

Available-for-sale securities are reported at fair value and are so classified based upon the possibility that such securities could be sold prior to maturity if that action enables the Company to execute its investment philosophy and appropriately match investment results to operating and liquidity needs.

All of the Company’s fixed maturity securities are classified as available-for-sale (“AFS”) and are reported at their estimated fair value. Unrealized investment gains and losses on AFS securities are recorded as a separate component of other comprehensive income (“OCI”). Security transactions are recorded on a trade date basis. Sales of securities are determined on a specific identification basis.

Interest income and prepayment fees are recognized when earned. Interest income is recognized using an effective yield method giving effect to amortization of premium and accretion of discount, and is based on the economic life of the securities, which for mortgage-backed securities considers the estimated timing and amount of prepayments of the underlying loans. The amortization of premium and accretion of discount also takes into consideration call and maturity dates.

The Company periodically evaluates these securities for impairment. The assessment of whether impairments have incurred is based on management's case-by-case evaluation of the underlying reasons for the decline in estimated fair value, as well as an analysis of the gross unrealized losses by severity and/or age.

For securities in an unrealized loss position, an other-than-temporary impairment ("OTTI") is recognized in earnings within net investment gains (losses) when it is anticipated that the amortized cost will not be recovered. When either: (i) the Company has the intent to sell the security; or (ii) it is more likely than not that the Company will be required to sell the security before recovery, the OTTI recognized in earnings is the entire difference between the security's amortized cost and estimated fair value. If neither of these conditions exists, the difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings ("credit loss"). If the estimated fair value is less than the present value of projected future cash flows expected to be collected, this portion of OTTI related to other-than-credit factors ("noncredit loss") is recorded in OCI.

Available-for-sale securities are valued at estimated fair value, by using the following hierarchy, if available:

i. By using securities exchange quotations/listed market prices
ii. By using pricing services or broker dealer quotations or
iii. By using a good faith estimate of fair value

Unrealized gains and losses on available-for-sale securities are reflected as a direct charge or credit to accumulated other comprehensive income (loss) in stockholder's equity on the balance sheet.

Funds Withheld Asset

Funds withheld asset represents a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which we act as reinsurer. Although the assets in funds withheld are legally owned by the ceding company, the assets are separated from the general accounts of the cedants and all economic rights and obligations on the assets accrue to the Company. The underlying agreements contain embedded derivatives as discussed in the derivatives section.

Embedded Derivatives

Reinsurance agreements written on a funds withheld basis contain embedded derivatives. Authoritative guidance for derivatives and hedging (ASC Topic 815) states that an embedded derivative shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risk of the host contract. If it is determined that the embedded derivative has economic characteristics not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately.

The right to receive or obligation to pay the total return on the assets supporting the funds withheld asset represents an embedded derivative. The fair value of embedded derivative on funds withheld asset is computed as the unrealized gain (loss) on the underlying assets and is included in the funds withheld asset and funds withheld liability on the consolidated balances sheets for assumed and ceded agreements, respectively. The change in the fair value of the embedded derivatives is recorded in income from reinsurance on the consolidated statements of operations and comprehensive loss.

Net Investment Income

Dividends and interest income, recorded in net investment income per the statement of income and comprehensive income, are recognized on an accrual basis. Amortization of premiums and accretion of discounts on investments in available-for-sale securities are reflected in net investment income over the contractual terms of the investments in a manner that produces a constant effective yield. Net investment income is presented net of incurred investment expenses.

Net Investment Gains

Net investment gains include net realized and unrealized investment gains and losses from the sale of investments and write-downs for other-than-temporary impairments of available-for-sale investments. It also includes investment expenses and gains and losses on securities carried at fair value. Realized gains and losses on the sale of investments are determined using the specific cost identification method.

Cash and Cash Equivalents

The Company considers highly liquid securities and other investments with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents. At December 31, 2020 and 2019, substantially all cash balances were at major financial institutions earning interest. At December 31, 2020 and 2019, certain cash amounts are in bank accounts insured by the FDIC up to $250,000. The Company is exposed to losses in excess of the FDIC insured amount.

Restricted Cash

The Company maintains cash deposits held as collateral with various broker-dealers and regulated exchanges for derivative trades and cash collateral posted with counterparties under repurchase agreements. At December 31, 2020 and 2019, restricted cash is held with various counterparties in interest bearing accounts.

Derivative Instruments

The Company invests in derivatives to hedge the risks experienced in its ongoing operations particularly as it relates to interest rate risk. Derivative assets and liabilities are carried at fair value on the balance sheets. At December 31, 2020 and 2019, no derivatives had been designated as hedges for accounting purposes.

Deferred Acquisition Costs, Net

The Company incurs significant costs in connection with acquiring new and renewal insurance business. Costs that directly are related to the successful acquisition or renewal of insurance contracts are capitalized as deferred acquisitions costs (“DAC”) to the extent that they are recoverable from gross profits.

DAC related to contracts without significant revenue streams from sources other than investment of the policyholder funds or without significant surrender charges are amortized using the effective interest method. The effective interest method amortizes the DAC by discounting the future liability cash flows at a break-even rate. The break-even rate is solved such that the present value of future liability cash flows is equal to the net liability at the inception of the contract. There was no DAC amortization for the year ended December 31, 2019 due to the DAC being incurred on December 27, 2019 when the retrocession agreement became effective.

Interest Receivable

Interest receivable primarily consists of accrued interest on available-for-sale securities.

Reinsurance

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

Insurance Reserves

Insurance reserves relating to contracts without life contingencies, including funding agreements, are accounted for as deposits and established at account value. The Company has accounted for its reinsurance contracts in accordance with Financial Accounting Standards Board ("FASB") ASC Topic 720 using the deposit method of accounting. At inception, the deposit liability is measured based on consideration paid or received, less any explicitly identified premiums or fees to be retained by the insurer or reinsurer. The amount of the liability and any balances receivable from or payable to the Cedant is adjusted at each reporting date to reflect any amounts accrued in terms of the underlying reinsurance treaty.

Amounts Due Under Repurchase Agreements

Assets sold with agreements to repurchase (repurchase agreements) are treated as collateralized financing transactions and are recorded at the amount of proceeds received by the Company, including accrued interest, which represents the Company’s obligations under such agreements.

Deferred Profit Liabilities

At inception of block reinsurance transactions, the excess of the assets received over the sum of the reserves reinsured and ceding commission, is deferred and recognized as a deferred profit liability (DPL). The DPL for interest-sensitive life and investment-type contracts is amortized using the effective interest method. The effective interest method is based on assumptions using accepted actuarial methods. Amortization is recorded in income within the statement of operations.

Income Taxes

The Company, as a Bermuda company, is not subject to U.S. federal or state income tax as a separate entity. Under the laws of Bermuda, there is no income, estate, sales or other Bermudian taxes payable by the Company. In the event that taxes are levied, the Company has received an undertaking from the Bermuda government exempting it from all taxes until March 31, 2035.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases. The guidance requires the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The guidance retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under previous GAAP. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly from previous GAAP. This new guidance is effective for fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact that this update will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. This new guidance replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The guidance also requires enhanced disclosures. This guidance is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the consolidated financial statements.

Recently Adopted Accounting Standards

In August 2018, the FASB issued ASU 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The new guidance changes how insurers account for long-duration contracts. The amendments change existing recognition, measurement, presentation, and disclosure requirements. Issues addressed in the new guidance include: 1) a requirement to review and, if there is a change, update assumptions for the liability for future policy benefits at least annually, and to update the discount rate assumption quarterly, 2) accounting for market risk benefits at fair value, 3) simplified amortization for deferred acquisition costs, and 4) enhanced financial statement presentation and disclosures. In November 2019, the FASB issued ASU 2019-09, Financial Services—Insurance (Topic 944). The purpose of this update is to defer the effective date for ASU 2018-12. This guidance is now effective for fiscal years beginning after December 15,

2023. The Company has adopted this standard effective January 1, 2020. Adoption of this standard did not have a material impact on the Company's financial statements.

NOTE C - AVAILABLE-FOR-SALE SECURITIES, AT FAIR VALUE

The cost, gross unrealized gains, gross unrealized losses and fair value of available-for-sale securities are as follows as of December 31, 2020 and 2019 (U.S. dollars in thousands):

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-Backed Securities	$ 12,846	$ 30	$ (341)	$ 12,535
Total	$ 12,846	$ 30	$ (341)	$ 12,535

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-Backed Securities	$ 186,455	$ 2,305	$ (778)	$ 187,982
Total	$ 186,455	$ 2,305	$ (778)	$ 187,982

The unrealized losses on available-for-sale securities at December 31, 2020 and 2019 relate primarily to changes in market interest rates, credit spreads and other external market factors. As of December 31, 2020 and 2019, the Company held five securities and eight securities, respectively that were in an unrealized loss position. None of the securities in the unrealized loss position mentioned above were in an unrealized loss position for more than 12 months. As of December 31, 2020 and December 31, 2019 the Company has not recorded OTTI for any of the AFS securities. As of December 31, 2020 and 2019 the available-for-sale-securities had contractual maturities beyond five years.

As of December 31, 2020 and 2019, the Company’s fixed maturity securities holdings were approximately $12.5 million and $187.9 million, respectively. The following tables sets forth certain information regarding the investment ratings of the Company's fixed maturity securities portfolio as of December 31, 2020 and 2019. Investment ratings are obtained from Moody's, Fitch, Standard & Poor's or other nationally recognized statistical rating organizations approved by the National Association of Insurance Commissioners ("NAIC") for each investment security (U.S. dollars in thousands):

December 31, 2020	Amortized Cost	% of Total	Fair Value	% of Total
AAA	$ —	— %	$ —	— %
AA	—	— %	—	— %
A	12,766	99.38 %	12,465	99.44 %
BBB	80	0.62 %	71	0.56 %
BB	—	— %	—	— %
B	—	— %	—	— %
Not Rated	—	— %	—	— %
Total AFS securities	$ 12,846	100.00 %	$ 12,535	100.00 %

December 31, 2019	Amortized Cost	% of Total	Fair Value	% of Total
AAA	$ —	— %	$ —	— %
AA	—	— %	—	— %
A	12,416	6.66 %	11,838	6.30 %
BBB	22,020	11.81 %	22,428	11.93 %
BB	70,381	37.75 %	71,159	37.85 %
B	81,636	43.78 %	82,557	43.92 %
Not Rated	—	— %	—	— %
Total AFS securities	$ 186,453	100.00 %	$ 187,982	100.00 %

NOTE D - FUNDS WITHHELD ASSET AND LIABILITY

At December 31, 2020, the Company's funds withheld assets and liabilities were comprised of four agreements, three of which relate to retroceded arrangements with an affiliated insurer under common control, Oceanview Life and Annuity Company, rated “A-” by A.M. Best. See NOTE I- Related Party Transactions for further details. Effective December 2020, the Company entered into a 100% coinsurance funds withheld transaction relating to a deferred annuity block with a Cedent that is rated A+ by A.M. Best. Liabilities associated with all four agreements are reflected as deposit liabilities.

The following table summarizes the Company's funds withheld and deposit liabilities at December 31, 2020 and December 31, 2019 respectively (U.S. dollars in thousands):

December 31, 2020	Deposit Accounting	Life and Structure settlement	Interest Sensitive and investment type (Modco)	Total
Assets:				
Funds Withheld	$ 1,834,265	$ —	$ —	$1,834,265
Liabilities:				
Funds Withheld Liability	$ 1,660,995	$ —	$ —	$1,660,995

December 31, 2019	Deposit Accounting	Life and Structure settlement	Interest Sensitive and investment type (Modco)	Total
Assets:				
Funds Withheld	$ 109,580	$ —	$ —	$ 109,580
Liabilities:				
Funds Withheld Liability	$ 100,070	$ —	$ —	$ 100,070

At December 31, 2020, our funds withheld asset was comprised of the following underlying assets (U.S. dollars in thousands):

	Total	**% of Total**
Residential mortgage loans	$ 103,912	5.67 %
Commercial mortgage loans	61,950	3.38 %
Preferred shares	8,584	0.47 %
US Corporate bonds	660,769	36.02 %
Municipal bonds	252,050	13.74 %
Agency MBS	377,573	20.58 %
Non-Agency MBS	90,150	4.91 %
US Treasuries	104,795	5.71 %
Cash	144,123	7.86 %
Receivable	22,040	1.20 %
Embedded derivative	8,319	0.45 %
	$ 1,834,265	100.00 %

At December 31, 2019, our funds withheld asset was comprised of the following underlying assets (U.S. dollars in thousands):

	Total	% of Total
Residential mortgage loans	$ 104,514	95.38 %
US Corporate bonds	3,896	3.56 %
Cash	1,220	1.11 %
Embedded derivative	(50)	(0.05)%
	$ 109,580	100.00 %

NOTE E- NET INVESTMENT INCOME

The major sources of net investment income in the accompanying consolidated statement of income and comprehensive income are as follows:

	December 31, 2020	December 31, 2019
Interest earned on cash and securities	$ 2,320	$ 27,619
Net amortization of premiums and accretion of discounts on securities	121	(306)
Interest earned on loans	560	$ —
Other income	115	$ 258
Gross income	$ 3,116	$ 27,571
Investment expenses	$ (286)	$ (732)
Net investment income	$ 2,830	$ 26,839

NOTE F- NET INVESTMENT GAINS

Details underlying net investment gains reported in the accompanying consolidated statement of income and comprehensive income as follows:

	December 31, 2020	December 31, 2019
Realized gain on securities	$ 3,731	$ 6,754
Realized loss on loans	(5,306)	—
Net investment (loss) gains	$ (1,575)	$ 6,754

NOTE G - FINANCIAL DERIVATIVE INSTRUMENTS

The Company entered into derivative agreements with the intent to hedge against interest rate fluctuations. At December 31, 2020 and 2019, the Company had not elected to designate any derivatives for hedge accounting under ASC 815, *Derivatives and Hedging*. Derivatives are reported at fair value. Changes in fair value are included in unrealized derivative losses, net in the consolidated statements of operations. The Company's derivative activity is subject to its overall risk management policies and procedures. The Company reports all derivative balances and related cash collateral subject to enforceable master netting arrangements on a gross basis within the consolidated balance sheet. The objectives, strategies, and underlying risks for the primary derivative instruments held by the Company are presented below.

Forward Contracts

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

Futures Contracts

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

Interest Rate Swaps

An interest rate swap agreement is a derivative contract between two parties in which one stream of future interest payments is exchanged for another based on a specified notional principal amount. The Company entered into pay fixed - receive variable interest rate swap agreements with the intent to hedge its exposure to interest rate risk. In connection with these agreements, cash collateral is posted in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default. Liquidation payments made or received are recorded as realized gains or losses in the consolidated statements of operations upon termination or maturity of the swap. Net periodic payments received or paid by the Company are included as part of realized gains or losses on the consolidated statements of operations. Entering into interest rate swap agreements involves market risk related to unfavorable changes in interest rates.

The following table presents the notional amount and fair value of derivative instruments at December 31, 2020 (U.S. dollars in thousands):

	December 31, 2020		
	Net Notional	Fair Value	
Instrument	Value	Assets	Liabilities
Interest rate contracts			
Forward contracts	$ 2,152	$ 11	$ —
Eurodollar futures	(906,000)	348	(245)
Interest rate swaps	31,063	1,290	(1,170)
	$ (872,785)	$ 1,649	$ (1,415)

	December 31, 2019		
	Net Notional	Fair Value	
Instrument	Value	Assets	Liabilities
Interest rate contracts			
Forward contracts	$ 32,930	$ 119	$ —
Eurodollar futures	(1,283,000)	—	(18)
Interest rate swaps	28,000	—	(17)
	$ (1,222,070)	$ 119	$ (35)

The effect of derivative instruments on the statements of income and comprehensive income (loss) for the years ended December 31, 2020 and 2019 is as follows (U.S. dollars in thousands):

	December 31, 2020	
Instrument	Realized Gain (Loss)	Unrealized Gain (Loss)
Interest rate contracts		
Forward contracts	$ 1,195	$ (106)
Eurodollar futures	2,177	366
Interest rate swaps	(698)	1,305
	$ 2,674	$ 1,565

	December 31, 2019	
Instrument	Realized Gain (Loss)	Unrealized Gain (Loss)
Interest rate contracts		
Forward contracts	$ 1,184	$ 119
Eurodollar futures	(3)	(18)
Interest rate swaps	—	(17)
	$ 1,181	$ 84

NOTE H - FAIR VALUE MEASUREMENTS

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

Level 1 - Valuation is based on unadjusted quoted prices in active markets for identical assets and liabilities that are accessible at the reporting date.

Level 2 - Valuation is determined from pricing inputs that are other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. Observable inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Valuation is based on unobservable inputs that are significant to the fair value measurement and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value generally require significant management judgment or estimation.

The balance of assets measured at fair value as of December 31, 2020 and 2019 is as follows. There were no liabilities measured at fair value as of 2019. (U.S. dollars in thousands):

December 31, 2020	Level 1	Level 2	Level 3	Total
Available-for-sale securities	$ —	$ —	$ 12,535	$ 12,535
Funds withheld asset - embedded derivative	601	5,293	2,425	8,319
Forward contracts	—	11	—	11
Eurodollar futures	348	—	—	348
Interest rate swaps	—	1,290	—	1,290
Total	949	6,594	14,960	22,503

December 31, 2019	Level 1	Level 2	Level 3	Total
Available-for-sale securities	$ —	$ —	$ 187,982	$ 187,982
Funds withheld asset - embedded derivative	—	—	(50)	(50)
Forward contracts	—	119	—	119
Eurodollar futures	(18)	—	—	(18)
Interest rate swaps	—	(17)	—	(17)
Total	(18)	102	187,932	188,016

The following summarizes the quantitative inputs and assumptions used for items categorized as Level 3 of the fair value hierarchy as of December 31, 2020 and 2019 (U.S. dollars in thousands):

	Fair Value				Weighted Average	
Investment Type	2020	2019	Valuation Technique	Unobservable Input	2020	2019
Available-for-sale securities	$ 12,535	$ 187,982	Quotes from broker-dealers	Indicative prices received from broker-dealers		
Funds withheld asset - embedded derivative	$ 1,739	$ (50)	Discounted cash flows	Constant prepayment rate	27.00%	19.60%
				Probability of default	2.33%	1.50%
				Loss severity	49.92%	47.10%
Funds withheld asset - embedded derivative	$ 686	$ —		Indicative prices received from broker-dealers		

During the year ended December 31, 2020, the Company purchased $15.6 million in available for sale securities classified as a Level 3 asset, and there were no purchases of liabilities classified as Level 3. During the year ended December 31, 2019, the Company purchased $275.2 million available for sale securities classified as a Level 3 asset, and there were no purchases of liabilities classified as Level 3.

Transfers between levels
During the years ended December 31, 2020 and 2019, there were no transfers between levels.

NOTE I - AMOUNTS DUE UNDER REPURCHASE AGREEMENTS

The following is a summary of the amounts due under repurchase agreements at December 31, 2020 and 2019 (U.S. dollars in thousands):

		December 31, 2020			December 31, 2019		
Collateral Type	Current Maturity Dates[(1)]	Balance Outstanding	Posted Collateral[(2)]	Weighted Average Interest Rate	Balance Outstanding	Posted Collateral[(2)]	Weighted Average Interest Rate
Securities and to lesser extent cash	None	$ —	$ —	—%	$ 142,272	$ 177,631	2.58%

[(1)] *This contract was renewed in January 2020.*

[(2)] *Collateral pledged for master repurchase agreements is reported gross on the balance sheets and is not netted against the related collateralized liability*

Certain of these repurchase agreements have financial covenants, and the Company was in compliance with such financial covenants as of December 31, 2020 and 2019. The Company had no repurchase agreement obligations as of December 31, 2020.

NOTE J - DEFERRED PROFIT LIABILITY

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

	December 31, 2020	December 31, 2019
Balance at the beginning of year	—	—
Additions	22,940	—
Amortization	(49)	$ —
Balance at the end of year	$ 22,891	$ —

NOTE K - RELATED PARTY TRANSACTIONS

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

<u>Affiliate Expenses</u>

The Management Company provides investment advice and directs the investments in Portfolio Assets. The Management Company is paid a fixed asset management fee for its services, payable in advance on the first day of each month, equal to the sum of (i) 0.40% of the aggregate market value of the loans owned by the Company, (ii) 0.35% of the aggregate market value of the structured products owned by the Company and (iii) 0.10% of the aggregate market value of any other investment assets owned by the Company, in each case measured as of the beginning of such month. The Management Company may, in its sole discretion, reduce or waive the asset management fee for any period of time. For the years ended December 31, 2020 and 2019, the Company incurred asset management fees of $0.3 million and $0.7 million, respectively.

Retrocession Agreement

The Company has entered into three funds withheld reinsurance retrocession agreements with Oceanview Life and Annuity Company ("OVLAC") an insurance company domiciled in the State of Colorado. OVLAC is rated “A-“ by A.M. Best. OVLAC is an affiliate of the Company. At December 31, 2020, and December 31, 2019 the reinsurance Funds Withheld Account amounted to $684.8 million and $109.6 million respectively. Refer to NOTE D for further details.

The over-collateralization amount payable to OVLAC by OVRe on two of the retrocession deals noted above had not settled as at December 31, 2020. This amounted to $22 million and was reported as a payable as at December 31, 2020.

One retrocession agreement between OVRe and OVLAC amounting to $400 million was pending approval from the Colorado Insurance Department as at December 31, 2020. Approval was received from the Colorado Insurance Department on January 28, 2021 with an effective date of December 31, 2020. This agreement is reflected in the financial results as at December 31, 2020.

Due to Related Parties

The Company obtained a loan amounting to $42 million from it's parent company, Oceanview Holdings, Ltd. The loan is payable by December 17, 2025. All interest on the unpaid principal balance due shall accrue at a fixed rate of 0.72%. For the entire term of this loan, all interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

Small Balance Commercial Loan Purchase and Sale

In March 2020 the Company purchased a portfolio of small balance commercial loans from Oceanview U.S. Holdings, Corp. for $168 million. The purchase of these loans was facilitated with repurchase agreements. These loans were sold to Oceanview U.S. Holdings, Corp. in April 2020 for $163 million.

NOTE L - STOCKHOLDER’S EQUITY

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

Additional Paid in capital
During the years ended December 31, 2020 and 2019, the Company received $20 million and $21 million, respectively, by way of additional contributions from its stockholder.

During the years ended December 31, 2020 and 2019 the Company distributed $45 million and $75 million, respectively, in capital back to its stockholder in accordance to a Section 31(C) approval obtained from the BMA.

Accumulated other than comprehensive income (loss)
Accumulated other comprehensive income (loss) includes the net unrealized loss on investment securities available-for-sale.

NOTE M - RISKS AND UNCERTAINTIES

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

Regulatory Risk

The Company's business plans require it to maintain its license as a Class E insurer in Bermuda. Failure to maintain this license in good standing would adversely affect the Company. Changes in laws and regulations to comply with existing laws and regulations also could subject the Company to penalties, unanticipated costs or interruption to our operations. As a Class E insurer, the Company is subject to Bermuda's Insurance Act 1978 ("Bermuda Insurance Act") as well as other applicable Bermuda law and regulations. Among other requirements, Class E insurers must at all times maintain a Minimum Margin of Solvency ("MMS") and an Enhanced Capital Requirement ("ECR") in accordance with the Bermuda Insurance Act. Class E insurers must maintain an MMS that is the greater of: (1) $8 million; (2) 2% of the first $500 million of assets plus 1.5% of applicable assets above $500 million; or (3) 25% of the ECR. The ECR is based on an economic balance sheet ("EBS") framework and a system, the Bermuda Solvency Capital Requirement ("BSCR"), that is a form of risk-based capital. In addition to the MMS requirement, a Class E insurer must maintain available statutory economic capital and surplus that equals or exceeds its ECR. The Company was in compliance with such laws and regulations as of December 31, 2020 and 2019.

Investments in Mortgage-Backed Securities

Credit Risk - Credit-related risk on mortgage-backed securities arises from losses due to delinquencies and defaults by the borrowers in payments on the underlying mortgage loans and breaches by originators and servicers of their obligations under the underlying documentation, pursuant to which the mortgage-backed securities are issued. The rate of delinquencies and defaults on mortgage loans and the aggregate amount of the resulting losses will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located, the level of the borrower's equity in the mortgaged property, and the individual financial circumstances of the borrower.

Prepayment Risk - Mortgage-backed securities are susceptible to prepayment risk. Except in the case of certain types of mortgage-backed securities, the mortgage loans underlying mortgage-backed securities generally do not contain prepayment penalties. A reduction in market interest rates will increase the likelihood of prepayments on the related mortgage-backed securities assets, resulting in a reduction in yield to maturity for most holders of such securities. In the case of certain home equity loan securities and certain types of mortgage-backed securities, even though the underlying mortgage loans often contain prepayment premiums, such prepayment premiums may not be sufficient to discourage borrowers from prepaying their mortgage loans in the event of a reduction in market interest rates, resulting in a reduction in the yield to maturity for holders of the related mortgage-backed securities.

Interest Rate Risk - The rate of interest payable on certain mortgage-backed securities may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans. As a result of this cap, the return to the holder of such mortgage-backed securities is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest. In general, early prepayments will have a greater negative impact on the yield to the holder of such mortgage-backed securities.

Concentration Risk - Concentration of credit risk refers to the risk that, if a significant portion of the Company's investment portfolio (including the collateral of securities) relate to borrowers in a specific geographical area or industry or on the security of a specific form of collateral, the Company's investments may experience disproportionately high levels of default and losses if those borrowers, or the value of such type of collateral, is adversely affected by economic or other factors that are particularly applicable to such borrowers or collateral.

Risk with Repurchase Debt Agreements

The inability to access financial leverage through warehouse and repurchase facilities, credit facilities, or other forms of debt financing may inhibit the Company's ability to execute its business plan, which could have a material adverse effect on the financial results, financial condition, and business.

The ability to fund the Company's business and our investment strategy depends on securing warehouse, repurchase, or other forms of debt financing (or leverage) on acceptable terms.

The Company cannot assure that it will be successful in establishing sufficient sources of short-term debt when needed. In addition, because of its short-term nature, lenders may decline to renew short-term debt upon maturity or expiration, and it may be difficult for the Company to obtain continued short-term financing. During certain periods, lenders may curtail their willingness to provide financing, as liquidity in short-term debt markets, including repurchase facilities and commercial paper markets, can be withdrawn suddenly, making it difficult or expensive to renew short-term borrowings as they mature. To the extent the Company's business or investment strategy calls to access financing and counterparties are unable or unwilling to lend, then the Company's business and financial results will be adversely affected.

Risk Associated with the Covid-19 Pandemic

In the 2020 financial year the Covid-19 pandemic has had serious and adverse consequences to business conditions in North America, the principal geographic area in which the Company operates, and elsewhere around the globe. These adverse consequences have included but are not limited to limitations on travel, transportation, education, production of goods, provision of services and businesses operations generally. Further, the equity and other securities markets have experienced significant volatility as a result of the pandemic. Although the long-term economic fallout of Covid-19 is difficult to predict, the challenging business conditions could have adverse effects on the Company's financial performance for future periods, including for the quarter ended March 31, 2021. If the economic fallout is severe and/or extended, the adverse impacts may be material. There were no events or transactions that occurred during the period that materially impacted the amounts or disclosures in the Company's financial statements.

NOTE N - COMMITMENTS AND CONTINGENCIES

The Company is not involved in any claims or legal actions as at March 29, 2021. Management is not aware of any claims or legal actions that would have a material adverse effect on the Company's financial position, results of operations or cash flows.

NOTE O - SUBSEQUENT EVENTS

The Company has evaluated events and transactions that occurred during the period from the balance sheet date through March 29, 2021, the date the Company's financial statements were available to be issued. Unless otherwise indicated, all information included in these financial statements is as of December 31, 2020.