

**UNAUDITED INTERIM CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS
OF BROOKFIELD ASSET MANAGEMENT REINSURANCE PARTNERS LTD. AS AT
JUNE 30, 2022 AND DECEMBER 31, 2021, AND FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2022 AND 2021**

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**UNAUDITED INTERIM CONDENSED COMBINED CONSOLIDATED
STATEMENTS OF FINANCIAL POSITION**

AS AT JUN. 30 2022 AND DEC. 31, 2021
US\$ MILLIONS

	Note	2022	2021
Assets			
Cash and cash equivalents	4	\$ 2,084	\$ 393
Investments	4	27,050	4,943
Accrued investment income		247	21
Reinsurance recoverables		28	—
Premiums due and other receivables		424	—
Reinsurance funds withheld		4,861	4,650
Derivative assets	4	24	146
Deferred tax asset		469	20
Property and equipment		180	2
Prepaid pension		138	—
Equity accounted investments	5	1,784	344
Deferred acquisition costs	7	1,111	776
Reinsurance assets	8	576	169
Investment properties	6	545	—
Other assets		263	29
Goodwill	3,10	176	—
Separate account assets	4	1,059	—
Total assets		41,019	11,493
Liabilities			
Future policy benefits	8	14,410	8,497
Policyholders' account balances	8	13,942	—
Policy and contract claims	8	1,734	—
Unearned premium reserve		1,089	—
Due to related parties	12	331	467
Reinsurance payable		76	75
Derivative liabilities	4	29	1
Other policyholder funds		321	—
Notes payable	4	159	—
Corporate borrowings	9	1,795	693
Subsidiary borrowings	9	1,495	—
Deferred revenue		79	82
Liabilities issued to reinsurance entities	4	216	167
Funds withheld liabilities	4	10	12
Preferred shares	11	2,459	—
Other liabilities		507	64
Separate account liabilities	4	1,059	—
Total liabilities		39,711	10,058
Equity			
Class A exchangeable and Class B		539	539
Class C		761	896
Non-controlling interests		8	—
Total equity		1,308	1,435
Total liabilities and equity		\$ 41,019	\$ 11,493

The accompanying notes are an integral part of the unaudited interim condensed combined consolidated financial statements.

**UNAUDITED INTERIM CONDENSED COMBINED CONSOLIDATED
STATEMENTS OF OPERATIONS**

FOR THE PERIODS ENDED JUN. 30		Three Months Ended		Six Months Ended	
US\$ MILLIONS, EXCEPT PER SHARE AMOUNTS	Note	2022	2021	2022	2021
Premiums					
Gross		\$ 1,504	\$ 50	\$ 1,819	\$ 52
Ceded		(81)	—	(82)	—
Net premiums		1,423	50	1,737	52
Other policy revenue		31	—	31	—
Net investment (loss) income		(158)	39	(258)	(24)
Net investment results from funds withheld		(12)	—	73	—
Total revenues		1,284	89	1,583	28
Income from equity accounted investments	5	72	—	86	—
Benefits and claims paid on insurance contracts					
	8				
Gross		377	21	515	38
Ceded		(93)	(6)	(96)	(12)
Change in future policy benefits	8				
Gross		890	59	883	(34)
Ceded		17	5	40	19
Interest credited to policyholders' account balances		5	—	5	—
Commissions for acquiring and servicing policies		62	—	62	—
Changes in deferred acquisition costs	7	(52)	—	(76)	—
Other reinsurance expenses		28	—	55	—
Operating expenses		81	7	98	10
Interest expense		34	—	43	—
Total benefits and expenses		1,349	86	1,529	21
Net income before income taxes		7	3	140	7
Income tax expense		(6)	(1)	(11)	(2)
Net income for the period		\$ 1	\$ 2	\$ 129	\$ 5
Attributable to:					
Brookfield Asset Management Inc. ¹		—	2	—	5
Class A exchangeable and Class B shareholders ²		1	—	3	—
Class C shareholders ²		2	—	128	—
Non-controlling interests		(2)	—	(2)	—
		\$ 1	\$ 2	\$ 129	\$ 5
Net income per class C share					
Basic ³	12	\$ 0.06	\$ —	\$ 4.99	\$ —

1. For the periods prior to June 28, 2021. See Note 2(b).

2. For the period June 28, 2021 onward. See Note 2(b).

3. Basic earnings per share for the three and six months ended January 1, 2021 to June 28, 2021 are attributed to our predecessor company Brookfield Annuity Holdings Inc., which was a wholly owned subsidiary of Brookfield Asset Management Inc.

The accompanying notes are an integral part of the unaudited interim condensed combined consolidated financial statements.

**UNAUDITED INTERIM CONDENSED COMBINED CONSOLIDATED
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

FOR THE PERIODS ENDED JUN. 30 US\$ MILLIONS	Three Months Ended		Six Months Ended	
	2022	2021	2022	2021
Net income	\$ 1	\$ 2	\$ 129	\$ 5
Other comprehensive income (loss) that will be reclassified to net income (loss)				
Equity accounted other comprehensive loss	(299)	—	(316)	—
Net unrealized loss on available for sale securities	(354)	—	(454)	(1)
Income tax expense	70	—	70	—
Foreign currency translation	(8)	—	(5)	2
Other comprehensive income (loss) that will not be reclassified to net income (loss)				
Defined benefit pension plan adjustment	(9)	—	(9)	—
Total other comprehensive (loss) income	(600)	—	(714)	1
Comprehensive (loss) income	\$ (599)	\$ 2	\$ (585)	\$ 6
Attributable to:				
Brookfield Asset Management Inc. ¹	—	2	—	6
Class A & B Shareholders ²	1	—	3	—
Class C Shareholders ²	(597)	—	(585)	—
Non-controlling interests	(3)	—	(3)	—
	\$ (599)	\$ 2	\$ (585)	\$ 6

1. For the periods prior to June 28, 2021. See Note 2(b).

2. For the period June 28, 2021 onward. See Note 2(b).

The accompanying notes are an integral part of the unaudited interim condensed combined consolidated financial statements.

**UNAUDITED INTERIM CONDENSED COMBINED CONSOLIDATED
STATEMENTS OF CHANGES IN EQUITY**

AS AT AND FOR THE SIX MONTHS ENDED JUN. 30 2022 US\$ MILLIONS	Class A exchangeable and Class B shareholders				Class C shareholders					
	Share Capital	Accumulated Surplus	Accumulated Other Comprehensive Income (Loss)	Class A exchangeable and Class B shareholders	Share Capital	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Loss	Class C shareholders	Non-controlling interests	Total Equity
Balance as at January 1, 2022	\$ 536	\$ 3	\$ —	\$ 539	\$ 963	\$ (51)	\$ (16)	\$ 896	\$ —	\$ 1,435
Changes in period:										
Net income	—	3	—	3	—	128	—	128	(2)	129
Other comprehensive income (loss)	—	—	—	—	—	—	(713)	(713)	(1)	(714)
Comprehensive income (loss)	—	3	—	3	—	128	(713)	(585)	(3)	(585)
Other items										
Equity issuances	—	—	—	—	450	—	—	450	11	461
Return of capital ¹	(3)	—	—	(3)	—	—	—	—	—	(3)
Total change in period	(3)	3	—	—	450	128	(713)	(135)	8	(127)
Balance as at June 30, 2022	\$ 533	\$ 6	\$ —	\$ 539	\$ 1,413	\$ 77	\$ (729)	\$ 761	\$ 8	\$ 1,308

1. The Company distributed \$0.14 in the form of a return of capital per each Class A exchangeable and Class B share in each of the first and the second quarters of 2022.

The accompanying notes are an integral part of the unaudited interim condensed combined consolidated financial statements.

UNAUDITED INTERIM CONDENSED COMBINED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

AS AT AND FOR THE SIX MONTHS ENDED JUN. 30 2021 US\$ MILLIONS	Brookfield Asset Management Inc.				Class A exchangeable and Class B shareholders				Class C shareholders				Non- controlling interests	Total Equity
	Share Capital	Accumulated Surplus	Accumulated Other Comprehensive Income	Brookfield Asset Management Inc.	Share Capital	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Income (Loss)	Class A exchangeable and Class B shareholders	Share Capital	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Income (Loss)	Class C shareholders	Non- controlling interests	
Balance as at January 1, 2021	\$ 78	\$ 1	\$ 4	\$ 83	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 83
Changes in period:														
Net income	—	5	—	5	—	—	—	—	—	—	—	—	—	5
Other comprehensive income	—	—	1	1	—	—	—	—	—	—	—	—	—	1
Comprehensive income	—	5	1	6	—	—	—	—	—	—	—	—	—	6
Other items														
Equity issuances	(78)	—	—	(78)	539	—	—	539	712	—	—	712	—	1,173
Common control transaction adjustments	—	(6)	(5)	(11)	—	—	—	—	—	1	—	1	—	(10)
Total change in period	(78)	(1)	(4)	(83)	539	—	—	539	712	1	—	713	—	1,169
Balance as at June 30, 2021	\$ —	\$ —	\$ —	\$ —	\$ 539	\$ —	\$ —	\$ 539	\$ 712	\$ 1	\$ —	\$ 713	\$ —	\$ 1,252

The accompanying notes are an integral part of the unaudited interim condensed combined consolidated financial statements.

**UNAUDITED INTERIM CONDENSED COMBINED CONSOLIDATED
STATEMENTS OF CASH FLOWS**

FOR THE SIX MONTHS ENDED JUN. 30
US\$ MILLIONS

	2022	2021
Operating activities		
Net income	\$ 129	\$ 5
Non-cash items affecting net income		
Premiums received in kind	(910)	—
Amortization and accretion on investments	3	—
Depreciation	3	—
Unrealized losses on investments and derivatives	525	63
Effect of foreign exchange rates	2	—
Income tax expense	11	2
Income from equity accounted investments	(86)	—
Interest credited to policyholders' account balances	5	—
Net capitalized interest on policy loans and mortgage loans	(2)	—
Realized gain on derivatives	1	—
Changes in non-cash balances related to operations		
Changes in premiums due and other receivables	14	—
Changes in reinsurance funds withheld	(213)	—
Changes in deferred tax asset	(3)	—
Changes in reinsurance assets	40	19
Changes in future policy benefits	970	(34)
Charges to policyholders' account balances	(31)	—
Changes in accrued investment income	(124)	—
Changes in deferred acquisition costs	(76)	—
Changes in working capital and other	203	(11)
Operating activities affecting cash		
Income tax paid	(40)	—
Realized gains on investments and derivatives	(70)	(14)
Purchase of derivatives	(27)	—
Sales of derivatives	34	—
Dividend and interest income received	(77)	—
Cash flows from operating activities	281	30
Investing activities		
Acquisition of subsidiary, net of cash acquired	(4,086)	—
Dividends and interest received	77	—
Purchase of investments		
Corporate bonds	(1,326)	(348)
Government and treasuries	(2,319)	(189)
Common equity	(244)	(291)
Private debt	(247)	—
Preferred shares	(40)	—
Private equity and other	(100)	—
Asset-backed securities	(282)	(10)

Mortgages	(171)	—
Private loans	(121)	(44)
Purchase of short term investments	(697)	—
Proceeds from sales and maturities of investments		
Corporate bonds	643	—
Government and treasuries	3,504	495
Private debt	152	—
Private equity and other	34	—
Asset-backed securities	5	—
Mortgages	154	—
Proceeds from disposal of short term investments	1,409	—
Distributions from equity method investments	41	—
Change in collateral held for derivatives	(11)	—
Purchase of equity accounted investments	(306)	—
Proceeds from disposal of derivative instruments	94	—
Proceeds from disposal of property and equipment	2	—
Purchase of intangibles and property and equipment	(7)	(1)
Cash flows from investing activities	(3,842)	(388)
Financing activities		
Issuance of common equity	450	1,160
Issuance of preferred equity	2,459	—
Return of capital	(3)	(5)
Borrowings from related parties	255	582
Repayments of borrowings to related parties	(580)	(582)
Borrowings from external parties	3,656	—
Repayment of borrowings to external parties	(1,055)	—
Borrowings issued to reinsurance entities	49	—
Policyholders' account deposits	141	—
Policyholders' account withdrawals	(112)	—
Debt issuance costs	(4)	—
Payments to noncontrolling interest	(3)	—
Proceeds from repurchase agreement	197	41
Repayments of repurchase agreement	(197)	(23)
Cash flows from financing activities	5,253	1,173
Cash and cash equivalents		
Cash and cash equivalents, beginning of period	393	35
Net change during the period	1,692	815
Foreign exchange on cash balances held in foreign currencies	(1)	1
Cash and cash equivalents, end of period	\$ 2,084	\$ 851

The accompanying notes are an integral part of the unaudited interim condensed combined consolidated financial statements.

NOTE 1. ORGANIZATION AND DESCRIPTION OF THE COMPANY

Brookfield Asset Management Reinsurance Partners Ltd.

Brookfield Asset Management Reinsurance Partners Ltd. (“BAM Re” or the “Company”) is a Bermuda corporation incorporated on December 10, 2020 and governed by the laws of Bermuda. The Company operates a leading financial services business providing reinsurance and other capital based solutions for insurance companies and other stakeholders. The Company’s class A exchangeable shares are listed on the New York Stock Exchange (NYSE) and the Toronto Stock Exchange (TSX) under the symbol “BAMR”. The Company’s operations are located primarily in Bermuda, Canada, and the Cayman Islands. The Company’s registered head office is Wellesley House South, 2nd Floor, 90 Pitts Bay Road, Pembroke, HM08, Bermuda.

The Company holds a direct 100% ownership interest in BAM Re Holdings Ltd. (“BAM Re Holdings”), which holds the Company’s interest in its operating subsidiaries North End Re Ltd. (“NER Ltd.”) and North End Re (Cayman) SPC (“NER SPC”), Brookfield Annuity Company (“BAC”) and American National Insurance Company (“American National”).

On May 25, 2022, the Company, through its wholly-owned subsidiary BAM Re Holdings, acquired American National, which became an indirect wholly-owned subsidiary of the Company.

Through its operating subsidiaries, the Company offers a broad range of insurance products and services to individuals and institutions, including life insurance, individual and group annuities, health insurance, credit insurance and property and casualty insurance for personal lines, agribusiness and certain commercial exposures. The business is presently conducted through our subsidiaries under three operating segments: Reinsurance, Pension Risk Transfer (“PRT”) and Direct Insurance.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These Unaudited Interim Condensed Combined Consolidated Financial Statements (“interim financial statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”) on a basis consistent with the accounting policies disclosed in the Audited Combined Consolidated Financial Statements for the fiscal year ended December 31, 2021, except for the impact of the adoption of the accounting standards described below and for the impact of accounting policies related to American National in the second quarter of 2022, as described further below.

The interim financial statements are prepared on a going concern basis and have been presented in U.S. dollars (“USD”) rounded to the nearest million unless otherwise indicated.

These interim financial statements should be read in conjunction with the Company's December 31, 2021 Audited Combined Consolidated Financial Statements and notes thereto. In particular, the Company’s significant accounting policies were presented as Note 2 to the Audited Combined Consolidated Financial Statements for the fiscal year ended December 31, 2021 included in that report.

The interim financial statements reflect any adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for fair statement of results for the interim periods in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB.

The results reported in these interim financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The interim financial statements were authorized for issue by the Board of Directors of the Company on August 15, 2022.

(b) Continuity of Interest

As described above, BAM Re was established on December 10, 2020 by Brookfield Asset Management Inc. ("Brookfield") and on June 28, 2021 Brookfield completed the spin-off of the PRT business (the "Business") to the Company and the special dividend declaration to holders of Brookfield's Class A and B Shares. Brookfield controlled the Business prior to the Spin-off and has significant influence over the Company subsequent to the spin-off through its interests in the Company. The Business was transferred before spin-off, as part of the reorganization, and therefore the transactions were common control transactions. In accordance with the Company and Brookfield's accounting policy, the Company has reflected the Business in its financial position and results of operations using Brookfield's carrying values, prior to the spin-off.

In addition, certain investments were transferred as part of the reorganization. These are treated as asset acquisitions and are also considered common control transactions. The Company's accounting policy is to record the common control asset acquisitions on the date of occurrence at the historical carrying value, with any gain or loss against the consideration paid being recorded in equity. To reflect this continuity of interest, these interim financial statements provide comparative information of the Business for the periods prior to the spin-off, as previously reported by Brookfield. The economic and accounting impact of contractual relationships created or modified in conjunction with the spin-off have been reflected prospectively from the date of the spin-off and have not been reflected in the results of operations or financial position of the Company prior to June 28, 2021, as such items were in fact not created or modified prior thereto. Accordingly, the financial information for the periods prior to June 28, 2021 is presented based on the historical financial information for the Business as previously reported by Brookfield. For the period after completion of the Spin-off, the results are based on the actual results of the Company, including the adjustments associated with the spin-off and the execution of several agreements (see Note 13). Therefore, net income (loss) and comprehensive income (loss) not attributable to interests of others in operating subsidiaries has been allocated to Brookfield prior to June 28, 2021 and allocated to the shareholders of class A exchangeable shares, class B shares and class C shares on and after June 28, 2021.

(c) Accounting estimates and judgements

The preparation of the interim financial statements in accordance with IFRS requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the interim financial statements. Estimates are subject to uncertainty and can therefore differ significantly from actual results. The items most susceptible to changes in estimates and assumptions include the measurement of future policy benefits, policy and contract claims, reinsurance assets, the fair value of financial assets determined using valuation techniques and the impairment of financial instruments. Actual results may differ from our estimates thereby impacting the interim financial statements. Outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

Management judgment is also used in applying the accounting policies used to prepare the interim financial statements. The items most susceptible to changes in estimate and judgements are the measurement of reinsurance assets (Note 8), future policy benefits and policy and contract claims (Note 8), and impairment of available-for-sale securities and loans and receivables (Note 4) and goodwill (Note 10).

(d) Earnings per share

The holders of the class C shares are entitled to receive distributions if, as and when declared or authorized. Our Board of Directors has adopted a policy that class C share distributions will be paid quarterly in an amount equal to the Company's distributable earnings (as determined by management of the Company) after payment of distributions on the class A exchangeable shares, class B shares and any other shares ranking senior to the class C shares and after provision for expenses, anticipated cash needs, and other similar adjustments. Total outstanding class C shares have been used to calculate basic earnings per share. Class A exchangeable shares and class B shares are not considered participating securities nor considered to be ordinary shares, and consequently per share amounts for these classes of shares have not been presented.

Basic earnings per share attributable to class C shareholders are calculated by dividing the Company's net income for the year, less distributions payable to class A exchangeable and class B shareholders, by the weighted average number of class C shares outstanding during the year.

Basic earnings per share for the three and six months ended months ended June 30, 2021 is calculated as earnings per share attributable to Class C shareholder for the period of June 28, 2021 to June 30, 2021. Basic earnings per share for the three and six months ended January 1, 2021 to June 28, 2021 are attributed to our predecessor company Brookfield Annuity Holdings Inc., which was a wholly owned subsidiary of Brookfield Asset Management Inc.

(e) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of a business acquisition is measured at the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date. The interest of non-controlling shareholders in the acquiree, if applicable, is initially measured at the non-controlling shareholders' proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, the excess is recorded as goodwill. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible and intangible assets, the excess is recognized in net income.

Transaction costs are recorded as operating expenses in the Condensed Combined Consolidated Statements of Operations.

(f) Investments

Investments are financial assets which are comprised of debt securities, equity and loans and receivables. The Company uses settlement date to account for private investment transactions and trade date to account for other investment transactions.

Financial assets are classified into one of the following categories:

- Available for sale ("AFS") assets are measured at fair value, with changes in fair value recognized in other comprehensive income (loss);
- Fair value through profit or loss ("FVTPL") assets are measured at fair value, with changes in fair value recognized in net income (loss); and
- Loans and receivables are measured at amortized cost.

Financial assets supporting future policy benefits within our PRT business and modified coinsurance reserves within reinsurance treaties are designated as FVTPL. Any changes in the fair value of the underlying assets matched to the future policy benefits are directly reflected in the future policy benefits. Unless the asset is deemed to be impaired, changes in the fair value of assets matching these liabilities and changes in the corresponding future policy benefits are directly recognized in the Condensed Combined Consolidated Statements of Operations in order to avoid a mismatch that would otherwise arise.

Loans and receivables are measured at amortized cost using the effective interest method, less any applicable provision for impairment.

Financial assets are classified according to their nature and use by the Company at the time of initial recognition. The remaining financial assets other than FVTPL and loans and receivables are classified as AFS. Unrealized gains (losses) are recognized in other comprehensive income. Upon realization, gains or losses are reclassified to the Condensed Combined Consolidated Statements of Operations and recorded in net investment income.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Any gain or loss arising on derecognition is recognized directly in net income and presented in realized gains (losses) on investments within net investment income.

(g) Investment properties

Investment properties are held primarily to earn rental income or capital appreciation or for both, but are not for sale in the ordinary course of business. The Company accounts for its investment properties in accordance with IAS 40 Investment Property (“IAS 40”). Investment properties including related improvements are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful life of the asset (typically 15 to 50 years). Rental income is recognized on a straight-line basis over the term of the respective lease and is measured, depreciated and assessed for impairment in the same manner as property and equipment.

(h) Derivative financial instruments and hedge accounting

The Company manages foreign currency exposure and other market risks associated with certain assets and liabilities by using derivative financial instruments such as foreign exchange forwards, cross currency swaps, interest rate swaps, equity-indexed options and bond futures. Derivative financial instruments are classified as held for trading which are measured as FVTPL investments. Derivative financial instruments are recorded at fair value on acquisition date and subsequently revalued at fair value at each reporting date. Derivative financial instruments with positive values are recorded as derivative assets and negative fair values are reported as derivative liabilities. Changes in fair value of derivatives are recorded in net investment income in the Statements of Operations.

Hedge accounting is applied when the derivative is designated as a hedge of a specific exposure and there is assurance that it will continue to be effective as a hedge based on an expectation of offsetting fair values. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as a hedge or the hedging relationship is terminated. For those derivatives which qualify and have been designated as fair value hedges, net income includes the changes in the fair value of both the derivative instrument and the hedged risk. The hedged item carrying amount shall be adjusted for the gain or loss.

In some instances, the Company holds collateral to offset exposure from its counterparties relating to its derivative instruments. Collateral that supports credit risk is reported in the Statements of Financial Position as an offset to other invested assets with an associated payable to other liabilities for excess collateral.

Derivatives embedded in reinsurance contracts which are not closely related to the host contract are separated and measured at fair value in the Condensed Combined Consolidated Statements of Financial Position. Changes in the fair value are included in the net investment results from funds withheld in the Condensed Combined Consolidated Statements of Operations.

(i) Structured entities

The Company invests a portion of its assets in structured entities that issue debt and preferred securities to subsidiaries of the Company, and its reinsurance treaty accounts. The Company is the primary beneficiary of the variable returns of assets held within the entities, and while the Company is not involved in the investment decision process, the investment manager for the structured entities is a related party with significant residual economic interest in the Company. As a result, these entities are consolidated within the Company’s financial statements. We assess the variable returns determination for our structured entities on an ongoing basis.

Liabilities of the entities that do not eliminate upon consolidation are recorded as liabilities of structured entities.

The carrying amount of the Company’s investment in the consolidated structured entities is determined in accordance with the Company’s accounting policies for the underlying securities held within the structured entities.

(j) Investment in associates, joint ventures and other limited partnership interests

Associates are entities over which the Company exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have the rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Other limited partnership interests are partnership arrangements in which the Company has more than a minor interest or influence over the investee's operations, but it does not have a controlling interest and is not the primary beneficiary.

The equity method is used to account for the Company's investments in associates, joint ventures and other limited partnership interests within the Condensed Combined Consolidated Statements of Financial Position.

Interests in associates, joint ventures and other limited partnership interests accounted for using the equity method are initially recognized at cost. At the time of initial recognition, if the cost of the associate or joint venture or other limited partnership interests is lower than the proportionate share of the investment's underlying fair value, the Company records a gain on the difference between the cost and the underlying fair value of the investment in net income. If the cost of the associate or joint venture or other limited partnership interests is greater than the Company's proportionate share of the underlying fair value, goodwill relating to the associate or joint venture or other limited partnership interests is included in the carrying amount of the investment.

Subsequent to initial recognition, the carrying value of the Company's interest in an associate or joint venture or other limited partnership interests is adjusted for the Company's share of comprehensive income and distributions of the investee. Profit and losses resulting from transactions with an associate or joint venture or other limited partnership interests are recognized in the financial statements based on the interests of unrelated investors in the investee. The carrying value of associates or joint ventures or other limited partnership interests is assessed for impairment indicators at each reporting date. Impairment losses on equity accounted investments may be subsequently reversed in net income. Further information on equity accounted investments is available in Note 5.

(k) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The costs of assets include the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the cost of dismantling and removing the items and restoring the site on which they are located.

Depreciation of property and equipment commences when it is available for use. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of each component of the property and equipment. The estimated useful lives of the property and equipment are three to thirty years.

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, on a straight-line basis. The ROU asset is depreciated on the straight-line basis over the lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes recognized on a prospective basis.

(l) Deferred acquisition costs and value of business acquired

Deferred policy acquisition costs ("DAC") are capitalized costs related directly to the successful acquisition of new or renewal insurance contracts. Significant costs are incurred to acquire insurance, reinsurance, and annuity contracts, including commissions and certain underwriting, policy issuance, and processing expenses.

DAC on reinsurance business is amortized over the life of the policies in proportion to the estimated gross profits. Costs that are directly related to the successful acquisition of reinsurance contracts are capitalized as DAC to the extent that they are recoverable from gross profits. These costs consist of commission and policy issuance costs, as well as sales inducements credited to policyholder account balances.

DAC on traditional life, including limited-pay contracts, and health products is amortized with interest over the anticipated premium-paying period of the related policies in proportion to the ratio of annual premium revenue expected to be received over the life of the policies. Expected premium revenue is estimated by using the same mortality, morbidity, and withdrawal assumptions used in computing liabilities for future policy benefits. DAC is reduced by a provision for possible inflation of maintenance and settlement expenses determined by means of grading interest rates.

DAC on universal life and investment-type contracts is amortized as a level percentage of the present value of anticipated gross profits from investment yields, mortality, and surrender charges. The effect of the realization of unrealized gains (losses) on DAC is recognized in net unrealized loss on available for sale securities in the Condensed Combined Consolidated Statements of Financial Position as of the reporting date. A change in interest rates could have a significant impact on DAC calculated for these contracts.

DAC associated with property and casualty business is amortized over the coverage period of the related policies, in relation to premiums earned.

DAC on participating whole life products is amortized in proportion to estimated gross margins. Estimated gross margins are equal to premiums, plus investment income, less benefits, less expenses not included in DAC, less the change in reserves, less dividends.

For short-duration and long-duration contracts, DAC is grouped consistent with the manner in which insurance contracts are acquired, serviced, and measured for profitability and is reviewed for recoverability based on the profitability of the underlying insurance contracts. Investment income is anticipated in assessing the recoverability of DAC for short-duration contracts.

Value of Business Acquired ("VOBA") is the intangible asset representing the value assigned to contracts already in force.

In conjunction with the acquisition of insurance policies or investment contracts, a portion of the purchase price is allocated to the right to receive future gross profits from cash flows and earnings of associated insurance policies and investment contracts. This intangible asset is based on the actuarially estimated present value of future cash flows from associated insurance policies and investment contracts acquired. The estimated present value of future cash flows used in the calculation of VOBA is based on certain assumptions, including mortality, persistency, expenses and interest rates that the Company believes to be those of a market participant. The Company amortizes VOBA based on the estimated premium earning patterns.

(m) Future policy benefits

Contract classifications

Contracts under which the Company accepts significant insurance risk from a policyholder are classified as insurance contracts in accordance with IFRS 4 Insurance Contracts ("IFRS 4") on the Condensed Combined Consolidated Statements of Financial Position. A contract is considered to have significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance at the inception of the contract. Contracts under which the Company does not accept significant insurance risk are classified as either investment contracts or considered a service contract and are accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement or IFRS 15 Revenue from Contracts with Customers, respectively. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk reduces significantly during the year, unless all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts if insurance risk subsequently becomes significant.

Measurement

Future policy benefits are determined by BAC using the Canadian Asset Liability Method (“CALM”), in accordance with the standards of the Canadian Institute of Actuaries (“CIA”) and as permitted by IFRS 4. BAC’s Appointed Actuary is responsible for determining the amount of future policy benefits in accordance with standards established by the CIA. CALM is used to determine future policy benefits and incorporates best-estimate assumptions for longevity, future investment yields, administration costs, margins for adverse deviation and inflation. Margins for adverse deviation are necessary to provide for possibilities of misestimation and future deterioration in the best estimate assumptions, and provide reasonable assurance that future policy benefits cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Future policy benefits are determined by NER Ltd. using US GAAP reserve methodology, as permitted by IFRS 4. Future policy benefits are carried at the accumulated contract holder values without reduction for potential surrender or withdrawal charges. These are equal to the balance that accrues to the benefit of the policyholders as of the reporting date (commonly referred to as the account value), including policyholders’ accumulated net deposits plus a guaranteed rate of interest credited, less policyholder deaths and withdrawals. Future policy benefits are further evaluated using accepted actuarial valuation methods based on assumptions related to mortality, withdrawals, surrender and deposit rates, determined when the policies are assumed.

Future policy benefits are determined by NER SPC using US GAAP reserve methodology, as permitted by IFRS 4. Future policy benefits for fixed index annuity contracts (with embedded derivatives) are carried at fair value with an explicit margin added to the mortality, lapse and partial withdrawal assumptions. The host contract and the embedded derivative are bifurcated. The embedded derivative cash flows incorporate a risk margin and are discounted using a rate that reflects our own credit rating. The host contract is established at contract inception as the initial value less the initial fair value of the embedded derivative and accreted over the policy’s life. The host value’s accretion rate is updated each quarter so that the present value of the actual and expected guaranteed cash flows is equal to the initial host.

An additional liability is established for Life Income Benefit Rider (“LIBR”) benefits -withdrawals paid after the contract account value is exhausted. The liability accrues in proportion to contractual assessments using the crediting interest rate. The present value of expected excess benefits and assessments is projected over a range of stochastic equity scenarios. Retrospective unlocking is performed by replacing mean stochastic projected assessments and benefits with actual, revising projections of future experience and resolving for the portion of assessments required.

Key reserve assumptions are based on industry standard data adjusted to align with actual experience, if necessary. The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish future policy benefit reserves. Due to the many assumptions and estimates used in establishing reserves, and the long-term nature of the reinsurance contracts, the reserving process, while based on standard actuarial practices, is inherently uncertain.

Future policy benefits are determined by American National using US GAAP reserve methodology, as permitted by IFRS 4. Liabilities for future policy benefits for traditional products have been provided on a net level premium method based on estimated investment yields, withdrawals, mortality, and other assumptions that were appropriate at the time the policies were issued. Estimates are based on historical experience adjusted for possible adverse deviation. These estimates are periodically reviewed and compared with actual experience. When it is determined that future expected experience differs significantly from existing assumptions, the estimates are revised for current and future issues.

Included within future policy benefits are amounts related to certain contracts or blocks of business that have negative VOBA. Negative VOBA is amortized over the duration of the respective contracts, being 30 years using the straight-line method. We record the fair value of the liabilities assumed in two components: reserves and VOBA. Reserves are established using our best estimate assumptions consistent with the policies described below for future policy benefits and interest sensitive contract liabilities. VOBA is the difference between the fair value of the liabilities and the reserves. Any negative VOBA is recorded within the associated reserves.

(n) Policyholders' account balances

Policyholders' account balances represent the contract value that has accrued to the benefit of the policyholders related to universal-life and investments-type contracts. For fixed products, these are generally equal to the accumulated deposits plus interest credited, reduced by withdrawals, payouts, and accumulated policyholder assessments. Indexed product account balances are equal to the sum of host and embedded derivative reserves computed per derivative accounting guidance.

(o) Policy and contract claims

Policy and contract claims are established to provide for the estimated costs of paying claims. These reserves include estimates for both case reserves and incurred but not reported claims ("IBNR") liabilities. Case reserves include the liability for reported but unpaid claims. IBNR liabilities include a provision for potential development on case reserves, losses on claims currently closed which may reopen in the future, as well as IBNR claims. These liabilities also include an estimate of the expense associated with settling claims, including legal and other fees, and the general expenses of administering the claims adjustment process.

(p) Other policyholder funds

Other policyholder funds consist of liabilities related to dividends payable on participating business. For the majority of this participating business, profits earned are reserved for the payment of dividends to policyholders, except for the stockholders' share of profits on participating policies. Participating policyholders' interest includes the accumulated net income from participating policies reserved for payment to such policyholders in the form of dividends, less net income allocated to stockholders, as well as a pro rata portion of unrealized investment gains (losses), net of tax.

(q) Reinsurance assets

In the normal course of business, BAC and American National are users of reinsurance in order to limit the potential for losses arising from certain exposures. To the extent that third party reinsurers are unable to meet their obligations, BAC and American National remains liable to its policyholders for the portion reinsured.

Reinsurance assets are estimated amounts due to the Company from reinsurers related to paid and unpaid ceded claims and claim adjustment expenses ("CAE") and are presented net of a reserve for collectability. Recoveries of gross ultimate losses under our non-catastrophe reinsurance are estimated by a review of individual large claims and the ceded portion of IBNR using assumed distribution of loss by percentage retained. Recoveries of gross ultimate losses under our catastrophe reinsurance are estimated by applying reinsurance treaty terms to estimates of gross ultimate losses. The most significant assumption is the average size of the individual losses for those claims that have occurred but have not yet been reported and our estimate of gross ultimate losses. The ultimate amount of the reinsurance ceded recoverable is unknown until all losses settle.

At each reporting date, the reinsurance assets, if any, are assessed for impairment. If there is objective evidence that the reinsurance assets are not recoverable and the impact of the event can be reliably measured, an impairment loss is recognized for the amount by which the carrying amount exceeds the recoverable amount.

(r) Separate account assets and liabilities

Separate account assets and liabilities are funds that are held separate from the general assets and liabilities of the Company. Separate account assets include funds representing the interments of variable insurance product contract holders, who bear the investment risk of such funds. Investment income and investment gains and losses from these separate funds accrue to the benefit of the contract holders. The Company reports separately, as assets and liabilities, investments held in such separate accounts and liabilities of the separate accounts if (i) such separate accounts are legally recognized; (ii) assets supporting the contract liabilities are legally insulated from the Company's general account liabilities; (iii) investments are directed by the contract holder; and (iv) all investment performance, net of contract fees and assessments, is passed through to the contract holder. In addition, the Company's qualified pension plan assets are included in separate accounts. The assets of these accounts are carried at fair value. Deposits, net investment income and realized investment gains and losses for these accounts are excluded from revenues, and related liability increases are excluded from benefits and expenses in the Condensed Combined Consolidated Statements of Operations. Separate accounts are established in conformity with insurance laws and are not chargeable with liabilities that arise from any other business of the Company.

(s) Premium, benefits, claims incurred, and expenses

Traditional ordinary life and health premiums are recognized as revenue when due. Benefits and expenses are associated with earned premiums to result in recognition of profits over the term of the insurance contracts.

Annuity premiums received on limited-pay and supplemental annuity contracts involving a significant life contingency are recognized as revenue when due. Deferred annuity premiums are recorded as deposits rather than recognized as revenue. Revenues from deferred annuity contracts are principally surrender charges and, in the case of variable annuities, administrative fees assessed to contract holders.

Universal life and single premium whole life revenues represent amounts assessed to policyholders including mortality charges, surrender charges actually paid, and earned policy service fees. Amounts included in expenses are benefits in excess of account balances returned to policyholders.

Property and casualty premiums are recognized as revenue over the period of the contract in proportion to the amount of insurance protection, which is generally evenly over the contract period. Claims incurred consist of claims and CAE paid and the change in reserves.

Gross premiums for PRT and reinsurance issued are recognized as revenue when due and collection is reasonably assured. When premiums are recognized, future policy benefits are computed, the result being that benefits and expenses are matched with such revenue. Premiums ceded are recognized when due and in accordance with the terms of the contractual agreement between the Company and reinsurer. Premium refunds, if any, are recognized on an accrual basis. Gross benefits and benefits ceded are recorded in the Condensed Combined Consolidated Statements of Operations when they are due and incurred.

(t) Participating insurance policies

For the majority of participating business, profits earned are reserved for the payment of dividends to policyholders, except for the stockholders' share of profits on participating policies, which is limited to the greater of 10% of the profit on participating business, or 50 cents per thousand dollars of the face amount of participating life insurance in-force. Participating policyholders' interest includes the accumulated net income from participating policies reserved for payment to such policyholders in the form of dividends (less net income allocated to stockholders as indicated above) as well as a pro rata portion of unrealized investment gains (losses).

For all other participating business, the allocation of dividends to participating policyowners is based upon a comparison of experienced rates of mortality, interest and expenses, as determined periodically for representative plans of insurance, issue ages and policy durations, with the corresponding rates assumed in the calculation of premiums.

(u) Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities within a year. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted at the end of each year.

Deferred income tax assets are recognized to the extent that it is probable that taxable profits will be available against which the unused tax losses or unused tax credits can be utilized by the Company. To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credit can be utilized, the deferred tax asset is not recognized.

Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases used in the computation of taxable income and carrying amounts of assets and liabilities in the Condensed Combined Consolidated Financial Statements. Deferred income tax liabilities are recognized for taxable temporary differences, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority within a single taxable entity, or the Company intends to settle its current tax assets and liabilities on a net basis in the case where there exists different taxable entities in the same taxation authority and when there is a legally enforceable right to set off current tax assets against current tax liabilities.

(v) Pension and postretirement benefit plans

Pension and postretirement benefit obligations and costs for our frozen benefit plans are estimated using assumptions including demographic factors such as retirement age and mortality.

The Company uses a discount rate to determine the present value of future benefits on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. For this purpose, a hypothetical bond portfolio to match the expected monthly benefit payments under the pension plan was constructed with the resulting yield of the portfolio used as a discount rate.

In developing the investment return assumption, we relied on a model that utilizes the following factors:

- Current yield to maturity of fixed income securities
- Forecasts of inflation, GDP growth, and total return for each asset class
- Historical plan performance
- Target asset allocation
- Standard deviations and correlations related to historical and expected future returns of each asset class and inflation

The resulting assumption is the assumed rate of return for the plans' target asset allocation, net of vestment expenses, and reflects anticipated returns of the plans' current and future assets.

Using this approach, the calculated return will fluctuate from year to year; however, it is the Company's policy to hold this long-term assumption relatively constant.

(w) Provisions

Provisions are recognized when the Company has a present obligation, either legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense is recognized in the Combined Consolidated Statements of Operations, net of any reimbursement.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(x) Preferred shares

On May 25, 2022, the Company issued 98,351,547 Class A Junior Preferred Shares, Series 1 ("preferred shares"), to Brookfield, for proceeds of \$2.5 billion. Each preferred share is non-voting and is redeemable at \$25 per share. Each of these preferred shares is redeemable, together with any accrued and unpaid dividends, at the option of the issuer, subject to certain restrictions. Further, these preferred shares entitle the holders thereof to a fixed cumulative 4.5% preferential cash dividend payable annually as and when declared by the issuer's board of directors. At June 30, 2022, there was \$11 million of dividends in arrears (Dec. 31, 2021 - \$ nil).

The Class A Junior Preferred Shares are retractable by the holder, at par value together with an amount equal to all dividends accrued and unpaid, on demand, at any point on or after seventh anniversary of the date of issue. The preferred shares are recognized as liability due to the redemption nature on the Condensed Combined Consolidated Statements of Financial Position and are classified as amortized cost. The dividends are recognized as interest expense on the Condensed Combined Consolidated Statements of Operations.

(y) Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is allocated to the cash-generating unit or units to which it relates. The Company identifies cash-generating units as identifiable groups of assets that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is evaluated for impairment annually or more often if events or circumstances indicate there may be impairment. Impairment is determined for goodwill by assessing if the carrying value of a cash-generating unit, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated value-in-use and fair value less costs of disposal. Impairment losses recognized in respect of a cash-generating unit are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the cash-generating unit. Any goodwill impairment is charged to profit or loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. In the year of a business acquisition, the recoverability of the acquired goodwill is assessed by revisiting the assumptions of the related underwriting model.

The Company assesses the impairment of goodwill by reviewing the value-in-use or fair value less costs of disposal of the cash-generating units to which goodwill has been allocated. The Company uses the following significant assumptions and estimates: the circumstances that gave rise to the goodwill, timing and amount of future cash flows expected from the cash-generating unit, discount rates, terminal capitalization rates, terminal valuation dates, useful lives and residual values.

(z) Intangible assets

Intangible assets consist of capitalized costs of estimated fair value of distributor relationships, trade name and insurance licenses. Intangible assets are included in Other Assets within the Consolidated Statements of Financial Position.

(i) *Distributor Relationships*

The distribution assets reflect relationships American National has with third-party intermediaries that sell new business for the Company. These assets are valued using the multi-period excess-earnings method, which derives value based on the present value of the after-tax cash flows attributable to the intangible asset only. The average useful life of distributor relationships is 19 years.

(ii) *Trade Name*

This represents American National's trade name and was valued using the relief from royalty method, which derives value based on present value of the after-tax royalty savings attributable to owning the intangible asset. The useful life of the trade name is 10 years.

(iii) *Insurance Licenses*

Given the highly regulated nature of the insurance industry, companies are required to hold certain licenses to operate. These licenses are valued using the comparable transaction method based on observable license transactions in the insurance industry. Insurance licenses represent an indefinite-lived intangible asset.

Definite-lived intangible assets are carried at cost less accumulated amortization. Amortization expense is primarily calculated using the straight-line amortization method.

The Company assesses the impairment of definite-lived intangible assets in accordance with its policy for the impairment of property and equipment. The Company assesses the impairment of indefinite-lived intangible assets in accordance with its policy for the impairment of goodwill.

(aa) Future accounting policy changes

(i) *IFRS 17*

In May 2017, the IASB issued IFRS 17 Insurance Contracts (“IFRS 17”) which will replace IFRS 4 and will be applied retrospectively. In June 2020, the IASB issued the amendment to IFRS 17, which includes deferral of the effective date to annual periods beginning on or after January 1, 2023. In addition, the IASB extended the exemption for qualifying insurers to apply IFRS 9 Financial Instruments (“IFRS 9”), so that both IFRS 9 and IFRS 17 will have the same effective date.

IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds.

The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided.

IFRS 17 will affect how the Company accounts for its insurance contracts and how it reports financial performance in the Statements of Operations within the interim financial statements. The Company continues to assess the impact of IFRS 17, which is expected to have a significant impact on the timing of earnings recognition, as well as presentation and disclosure, for its insurance contracts.

(ii) *IFRS 9*

In July 2014, the IASB published the complete version of IFRS 9, which replaces IAS 39 and is effective for annual periods beginning on or after January 1, 2018, with retrospective application. IFRS 9 provides changes to the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model, and new hedge accounting guidance. In September 2016, the IASB issued an amendment to IFRS 4 to provide qualifying insurance companies with an optional temporary exemption from applying IFRS 9.

In December 2021, the IASB published a narrow-scope amendment to IFRS 9, which allow insurers to apply the classification overlay to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on the initial application of IFRS 9 and IFRS 17.

The Company has taken the temporary exemption to apply IFRS 9 until IFRS 17 is adopted on January 1, 2023 on the basis that the Company's activities are predominantly connected with insurance, and it has not previously applied IFRS 9. The percentage of the total carrying amount of the liabilities connected with insurance relative to the total carrying amount of all its liabilities was less than or equal to 90 per cent but greater than 80 per cent, and the Company determined that it did not engage in a significant activity unconnected with insurance.

The Company is currently assessing the impact of implementing IFRS 9.

(iii) Amendments to IAS 1

In February 2021, IASB issued 'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)' with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is currently assessing the impact of the adoption of these amendments on the interim financial statements.

(iv) Amendments to IAS 8

In February 2021, IASB published 'Definition of Accounting Estimates (Amendments to IAS 8)' to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is currently assessing the impact of the adoption of these amendments on the interim financial statements.

(v) Amendments to IAS 12

In May 2021, the IASB published 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction', which amended IAS 12, Income Taxes. The amendments relate to the recognition of deferred tax when an entity accounts for transactions, such as leases or decommissioning obligations, by recognizing both an asset and a liability. The amendments are effective for annual reporting period beginning on or after January 1, 2023. The Company is evaluating the impact of the adoption of these amendments on its interim financial statements.

(ab) Impact of COVID-19

Since the outbreak of COVID-19, emergency measures taken in response to the spread of the virus have resulted in significant disruption to business operations globally, resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility and weakness. The governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. These developments are constantly evolving and the duration and impact of the COVID-19 pandemic is highly uncertain and cannot be predicted at this time but could have a material impact on the future performance of the assets. Where COVID-19 relates to our business, specifically in valuing our insurance and reinsurance liabilities, we have allowed for identified deaths but we have not made any changes to our longevity assumptions as it remains too early to quantify the potential long-term impacts from COVID-19 on longevity.

NOTE 3. ACQUISITION OF BUSINESS

On May 25, 2022, American National was acquired by a wholly-owned subsidiary of the Company. Under the terms of the Merger Agreement, the Company acquired 100% of all American National issued and outstanding shares in exchange for \$190 per share, which is equivalent to \$5.1 billion. The Company acquired all assets and assumed all liabilities of American National as of the closing date, and consolidates the business for financial statement purposes.

The following summarizes the consideration transferred, fair value of assets acquired and liabilities assumed at the acquisition date:

(in millions)

Total consideration transferred for the acquisition	\$ 5,107
Assets acquired	
Cash and cash equivalents	1,021
Investments	22,518
Accrued investment income	101
Reinsurance recoverables	45
Premiums due and other receivables	437
Deferred tax assets	389
Property and equipment	175
Prepaid pension	149
Equity accounted investment	1,402
Deferred acquisition costs	273
Reinsurance assets	386
Investment properties	541
Other assets	198
Separate account assets	1,123
Total assets to be acquired	<u>28,758</u>
Liabilities assumed	
Future policy benefits	5,034
Policyholders' account balances	13,940
Policy and contract claims	1,706
Unearned premium reserve	1,073
Other policyholder funds	334
Notes payable	158
Other liabilities	449
Separate account liabilities	1,123
Total liabilities to be assumed	<u>23,817</u>
Less: Noncontrolling interest	(10)
Net assets to be acquired	<u>4,931</u>
Goodwill	<u>\$ 176</u>

Accounting for the acquisition is not finalized, and there remains some measurement uncertainty on the acquisition and June 30, 2022 balances, pending completion of a comprehensive evaluation of the net assets acquired. The interim financial statements at June 30, 2022 reflect management's current best estimate of the purchase price allocation. Final valuation of the assets acquired and liabilities assumed and the completion of the purchase price will occur by the end of the first quarter for 2023. As a result, the excess of the purchase price over the fair value of net assets acquired, representing goodwill of \$176 million as at June 30, 2022, will be adjusted in future periods. Goodwill of approximately \$176 million was recognized as a result of the acquisition. Goodwill recognized is not deductible for income tax purposes. Acquisition costs of \$13 million were expensed at the acquisition date and recorded as Operating expenses on the Condensed Combined Consolidated Statements of Operations.

The acquired business contributed revenues of \$223 million and net profit of \$16 million to the Company for the period from May 25 to June 30, 2022.

If the acquisition had occurred on January 1, 2022, consolidated pro forma revenue and profit for the period ended June 30, 2022 would have been \$1.9 billion and \$169 million, respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting standards and policies between the Company and American National, and
- the revised depreciation and amortization that would have been charged assuming the fair value adjustments to investments, property and equipment and intangible assets had applied from January 1, 2022, together with the consequential tax effects.

NOTE 4. FINANCIAL INSTRUMENTS

a) Summary of cash and cash equivalents, investments and derivative assets and liabilities

The summary of financial assets and financial liabilities is as follows:

AS AT JUN. 30 US\$ MILLIONS	2022			
	FVTPL ¹	AFS	Amortized Cost	Total
Cash and cash equivalents				
Cash	\$ —	\$ —	\$ 685	\$ 685
Cash equivalents	—	—	1,399	1,399
Total cash and cash equivalents ²	—	—	2,084	2,084
Derivatives				
Foreign exchange forwards	6	—	—	6
Cross currency swaps	1	—	—	1
Options	17	—	—	17
Total derivative assets	24	—	—	24
Debt securities				
Bonds				
Government and Municipal	362	2,042	—	2,404
Corporate	1,834	13,469	—	15,303
Asset-backed securities	228	720	—	948
Private debt	—	209	13	222
Total debt securities	2,424	16,440	13	18,877
Equity				
Common shares	—	538	—	538
Preferred shares	14	70	—	84
Private equity and other	—	297	—	297
Total equity	14	905	—	919
Loans and receivables				
Mortgage loans	—	—	5,523	5,523
Private loans	—	—	551	551
Other loans	—	—	372	372
Total loans and receivables	—	—	6,446	6,446

Short term investments				
Commercial paper	—	—	655	655
Total short term investments	—	—	655	655
Separately managed accounts	—	118	—	118
Other invested assets	—	19	16	35
Total investments	2,438	17,482	7,130	27,050
Investment properties	—	—	545	545
Separate account assets	—	1,059	—	1,059
Reinsurance funds withheld	4,861	—	—	4,861
Derivative liabilities				
Foreign exchange forwards	(9)	—	—	(9)
Cross currency swaps	(20)	—	—	(20)
Total derivative liabilities	(29)	—	—	(29)
Funds withheld liabilities	(10)	—	—	(10)
Separate account liabilities	—	(1,059)	—	(1,059)
Notes payable	—	—	(159)	(159)

1. All financial instruments measured at FVTPL have been designated as FVTPL at initial recognition except for derivative assets and liabilities, which are financial assets that are held for trading.

2. Cash and cash equivalents as at June 30, 2022 includes \$59 million of collateral that is pledged to the benefit of the Company from its derivative counterparties with a corresponding liability to return the collateral in liabilities for derivative financial instruments.

AS AT DEC. 31 US\$ MILLIONS	2021			
	FVTPL ¹	AFS	Amortized Cost	Total
Cash and cash equivalents				
Cash	\$ —	\$ —	\$ 320	\$ 320
Cash equivalents	—	—	73	73
Total cash and cash equivalents	—	—	393	393
Derivatives				
Foreign exchange forwards	10	—	—	10
Bond futures	9	—	—	9
Options	127	—	—	127
Total derivative assets	146	—	—	146
Debt securities				
Bonds				
Government and Municipal	377	1,287	—	1,664
Corporate	1,471	253	—	1,724
Asset-backed securities	115	53	—	168
Private debt	—	208	—	208
Total debt securities	1,963	1,801	—	3,764
Equity				
Common shares	—	275	—	275
Preferred shares	4	14	—	18
Private equity and other	—	247	—	247
Total equity	4	536	—	540
Loans and receivables				
Mortgage loans	—	—	23	23
Private loans	—	—	616	616
Total loans and receivables	—	—	639	639
Total investments	1,967	2,337	639	4,943
Reinsurance funds withheld	4,650	—	—	4,650
Derivative liabilities				
Interest rate swaps	(1)	—	—	(1)
Total derivative liabilities	(1)	—	—	(1)
Funds withheld liabilities	(12)	—	—	(12)

1. All financial instruments measured at FVTPL have been designated as FVTPL at initial recognition except for derivative assets and liabilities, which are financial assets that are held for trading.

The Company assesses that the carrying value of the financial assets measured at amortized cost approximates their fair value.

AFS investments and investments measured at amortized cost are individually evaluated for impairment. For the six months ended June 30, 2022, the Company did not incur any impairment expense (June 30, 2021 – \$Nil).

The Company had collateral pledged of \$160 million as at June 30, 2022 (December 31, 2021 – \$23 million) for the benefit of the Company's counterparties primarily to its derivative instrument contracts, Federal Home Loan Bank agreements, reinsurance agreements, financing and worker's compensation.

b) Fair value hierarchy

Investments measured at fair value are classified in accordance with a valuation hierarchy that reflects the significance of the inputs used in determining their fair value, as per IFRS 13 Fair Value Measurement. Under Level 1 of this hierarchy, fair value is derived from unadjusted quoted prices in active markets for identical investments. Under Level 2, fair value is derived from market inputs that are directly or indirectly observable other than unadjusted quoted prices for identical investments. Under Level 3, fair value is derived from inputs that are not based on observable market data.

The following sets out the financial assets and financial liabilities classified in accordance with the above-mentioned fair value hierarchy, excluding financial assets and financial liabilities that are carried at amortized cost.

	2022			
AS AT JUN. 30 US\$ MILLIONS	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Fair value through profit or loss:				
Bonds	\$ —	\$ 2,196	\$ —	\$ 2,196
Asset-backed securities	—	228	—	228
Preferred shares	14	—	—	14
Derivative assets	3	21	—	24
Reinsurance funds withheld	—	4,861	—	4,861
Available for sale:				
Bonds	587	14,555	369	15,511
Asset-backed securities	—	621	99	720
Private debt	—	—	209	209
Common shares	494	41	3	538
Preferred shares	31	—	39	70
Private equity and other	13	—	284	297
Other invested assets	—	19	—	19
Separate account assets	315	715	29	1,059
Separately managed accounts	—	—	118	118
Total financial assets	<u>\$ 1,457</u>	<u>\$ 23,257</u>	<u>\$ 1,150</u>	<u>\$ 25,864</u>
Financial liabilities				
Fair value through profit or loss:				
Derivative liabilities	(20)	(9)	—	(29)
Funds withheld liabilities	—	(10)	—	(10)
Available for sale:				
Separate account liabilities	(315)	(715)	(29)	(1,059)
Total financial liabilities	<u>\$ (335)</u>	<u>\$ (734)</u>	<u>\$ (29)</u>	<u>\$ (1,098)</u>

2021

AS AT DEC. 31
US\$ MILLIONS

	Level 1	Level 2	Level 3	Total
Financial assets				
Fair value through profit or loss:				
Bonds	\$ —	\$ 1,848	\$ —	\$ 1,848
Asset-backed securities	—	115	—	115
Preferred shares	4	—	—	4
Derivative assets	9	137	—	146
Reinsurance funds withheld	—	4,650	—	4,650
Available for sale:				
Bonds	1,165	375	—	1,540
Asset-backed securities	—	53	—	53
Private debt	—	—	208	208
Common shares	244	31	—	275
Preferred shares	3	1	10	14
Private equity and other	—	—	247	247
Total financial assets	\$ 1,425	\$ 7,210	\$ 465	\$ 9,100
Financial liabilities				
Fair value through profit or loss:				
Derivative liabilities	—	(1)	—	(1)
Funds withheld liabilities	—	(12)	—	(12)
Total financial liabilities	\$ —	\$ (13)	\$ —	\$ (13)

The following table summarizes the valuation techniques and key inputs used in the fair value measurement of Level 2 financial instruments:

Type of Financial Instruments	Valuation Techniques and Key Inputs
Bonds and other equities	<p>Valuation model is based on quoted prices of similar traded securities in active markets. For example, interest rates and yield curves observed at commonly quoted intervals, implied volatility, credit spread and market-corroborated inputs.</p> <p>The Company evaluates each asset class based on relevant market information, credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation, listed in the approximate order of priority, include: benchmark yields, reported trades, pricing source quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and economic events. The extent of the use of each market input depends on the asset class and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities, additional inputs may be necessary.</p>
Derivative assets/Derivative liabilities	<p>Foreign currency forward contracts—discounted cash flow model—forward exchange rates (from observable forward exchange rates at the end of the reporting period); discounted at a credit adjusted rate.</p> <p>Valuation model is based on interest rate contracts—discounted cash flow model—forward interest rates (from observable yield curves) and applicable credit spreads discounted at a credit adjusted rate.</p>
Reinsurance funds withheld	Valuation model is based on quoted prices of similar traded securities in active markets. For example, interest rates and yield curves observed at commonly quoted intervals, implied volatility, credit spread and market-corroborated inputs.
Separate account assets and liabilities	The separate account assets included in the quantitative disclosures fair value hierarchy table are comprised of short-term investments, equity securities, and fixed maturity bonds available-for-sale. Short-term investments and fixed maturity securities are classified as Level 2 measurements. The classifications for separate assets reflect the fair value methodologies of the underlying asset and liability fair value methodologies listed above.
Funds withheld liabilities	Valuation model is based on quoted prices of similar traded securities in active markets. For example, interest rates and yield curves observed at commonly quoted intervals, implied volatility, credit spread and market-corroborated inputs.

The Company performs initial and ongoing analysis and review of the valuation techniques utilized in determining fair value to ensure that they are appropriate and consistently applied, and that the valuation assumptions are reasonable. The Company analyzes and reviews the data, assumptions and valuation model to ensure that the fair value represents a reasonable estimate as at reporting period end and to monitor controls around fair value measurement, which includes quantitative and qualitative analysis and is overseen by the Company's investment and accounting personnel.

Fair values determined using valuation models requiring the use of unobservable inputs (Level 3 financial assets and liabilities) include assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those unobservable inputs, the Company uses observable external market inputs such as interest rate yield curves, currency rates and price and rate volatilities, as applicable, to develop assumptions regarding those unobservable inputs.

The following table summarizes the valuation techniques and significant unobservable inputs used in the fair value measurement of Level 3 financial instruments:

Type of Asset	Valuation Techniques	Significant Unobservable Inputs	Significant unobservable inputs and relationship of unobservable inputs to fair value
Private equity	Discounted cash flows	<ul style="list-style-type: none"> • Future cash flows The future cash flows are based on cash flows flowing to the underlying investment • Discount rate The discount rate reflects the inherent risk of the underlying investment 	<ul style="list-style-type: none"> • Increases (decreases) in future cash flows increase (decrease) fair value • Increases (decreases) in discount rate decrease (increase) fair value
Private debt	Discounted cash flows	<ul style="list-style-type: none"> • Future cash flows The future cash flows include expected interest and principal payments. • Discount rate The discount rate reflects the credit spreads used and the liquidity conditions of the debt instrument. 	<ul style="list-style-type: none"> • Increases (decreases) in future cash flows increase (decrease) fair value • Increases (decreases) in discount rate decrease (increase) fair value
Equity-index Option	Heston and Black-Sholes Valuation models	<ul style="list-style-type: none"> • Interest rate (risk-free rate assumptions) • Underlying equity quoted index prices 	<ul style="list-style-type: none"> • Increases (decreases) in interest rate assumptions decrease (increase) fair value • Increases (decreases) in underlying equity index prices increase (decrease) fair value

Separately managed accounts	<p>Common Stock and Warrants</p> <ul style="list-style-type: none"> Guideline public company method uses price multiples from data on comparable public companies. Option pricing method Current Value Method (CVM) <p>Preferred Stock</p> <ul style="list-style-type: none"> Guideline public company method uses price multiples from data on comparable public companies. CVM <p>Fixed Income</p> <ul style="list-style-type: none"> Discounted cash flows (yield analysis) market transactions approach CVM Cost 	<p>Common Stock and Warrants</p> <ul style="list-style-type: none"> Next Calendar Year Multiple Next Calendar Year +1 EBITDA Multiple Last Twelve Months Revenue Multiple valuation metric shows revenue for the past 12 month period. Last Twelve Months EBITDA Multiple valuation metric shows earnings before interest, taxes, depreciation and amortization adjustments for the past 12 month period. Term Volatility DLOM -discount for lack of marketability <p>Preferred Stock</p> <ul style="list-style-type: none"> Next Calendar Year Revenue Multiple Next Calendar Year +1 EBITDA Multiple Last Twelve Months Revenue Multiple valuation metric shows revenue for the past 12 month period. Last Twelve Months EBITDA Multiple valuation metric shows earnings before interest, taxes, depreciation and amortization adjustments for the past 12 month period. <p>Fixed Income</p> <ul style="list-style-type: none"> Discounted rate Next Calendar Year EBITDA 	<ul style="list-style-type: none"> Increases (decreases) in Next Calendar Year Multiple increase (decrease) fair value Increases (decreases) in Next Calendar EBITDA Multiple increase (decrease) fair value Increases (decreases) in Last Twelve Months Revenue Multiple increase (decrease) fair value Increases (decreases) in Last Twelve Months EBITDA Multiple increase (decrease) fair value Increases (decreases) in term increase (decrease) fair value Increases (decreases) in volatility increase (decrease) fair value Increases (decreases) in DLOM decrease (increase) fair value Increases (decreases) in discount rate decrease (increase) fair value
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Separate account assets and liabilities	Equity method	<ul style="list-style-type: none"> • Proportionate share of net income of the underlying investment fund • Proportionate share of other comprehensive income of the underlying investment fund • Proportionate share of distribution received from the underlying investment fund 	<ul style="list-style-type: none"> • Increases (decreases) in proportionate share of net income of the underlying investment fund increase (decrease) fair value • Increases (decreases) in proportionate share of other comprehensive income of the underlying investment fund increase (decrease) fair value • Increases (decreases) in proportionate share of distribution received from the underlying investment fund decrease (increase) fair value
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There were no transfers between Level 1, Level 2 or Level 3 during the periods ended June 30, 2022 and December 31, 2021.

NOTE 5. EQUITY ACCOUNTED INVESTMENTS

The Company's equity accounted investments relate to its investment in associates in AEL Holdings and investments in real estate joint ventures and other limited partnership interests.

The following table presents the change in the Company's equity accounted investment investments in AEL Holdings during the period:

AS AT AND FOR THE SIX MONTHS ENDED JUN. 30 US\$ MILLIONS	2022	2021
Balance, beginning of period	\$ 344	\$ —
Additions	254	—
Share of net income	63	—
Share of other comprehensive income	(316)	—
Balance, end of period	\$ 345	\$ —

The Company's ownership interest in AEL Holdings is 17%. AEL Holdings, through its wholly-owned subsidiaries, is a leading issuer of fixed index annuities through independent agents, banks and broker-dealers in the United States with its corporate headquarters in Des Moines, Iowa.

AEL Holdings' shares are traded on the New York Stock Exchange. The fair value of the Company's shares in AEL Holdings is \$581 million based on the quoted price as at June 30, 2022. The Company did not receive dividends from AEL Holdings during the three months ended June 30, 2022.

The Company's equity in earnings of real estate partnerships is the Company's share of operating earnings and realized gains from investments in real estate joint ventures and other limited partnership interests using the equity method of accounting.

The following table presents the change in the Company's joint ventures and other limited partnership interests during the period:

AS AT AND FOR THE SIX MONTHS ENDED JUN. 30 2022 US\$ MILLIONS	2022	2021
Balance, beginning of period	\$ —	\$ —
Additions	55	—
Acquisition from business combination	1,402	—
Share of net income	23	—
Distributions received	(41)	—
Balance, end of period	\$ 1,439	\$ —

The Company recognizes its share of income and OCI from its weighted average ownership interest in the equity accounted investments one quarter in arrears or less, depending on the most up date information available to the Company.

NOTE 6. INVESTMENT PROPERTIES

The following table presents the changes in the Company's investment properties:

AS AT AND FOR THE SIX MONTHS ENDED JUN. 30 US\$ MILLIONS	2022	2021
Carrying value, beginning of period	\$ —	\$ —
Acquisition from business combination	541	—
Additions from expenditure capitalization	2	—
Disposals	(5)	—
Depreciation	(1)	—
Foreign currency translation and other	8	—
Carrying value, end of period	\$ 545	\$ —

NOTE 7. DEFERRED ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED

The following table presents movement in deferred acquisition costs and the impact on expenses:

AS AT AND FOR THE SIX MONTHS ENDED JUN. 30 US\$ MILLIONS	2022	2021
Deferred acquisition costs, beginning of period	\$ 776	\$ —
Acquisition from business combination	273	—
Costs capitalized under reinsurance contracts	118	—
Amortization and other	(56)	—
Deferred acquisition costs, end of period	\$ 1,111	\$ —

VOBA recognized in connection with the acquisition of American National represents the difference between the fair value of liabilities acquired and reserves established using a weighted-average cost of capital discount rate and other relevant assumptions as at the acquisition date. The acquisition resulted in VOBA of \$273 million within direct business written, primarily driven by the property and casualty business. VOBA is amortized based on the estimated premium earning patterns. Amortization expense of VOBA was \$14 million since the acquisition date and we expect to record an additional \$83 million for the remainder of 2022.

NOTE 8. FUTURE POLICY BENEFITS, POLICY AND CONTRACT CLAIMS AND POLICYHOLDERS' ACCOUNT BALANCES

The Company's future policy benefits and policy, contract claims and policyholders account balances are as follows:

AS AT JUN. 30, 2022 AND DEC. 31, 2021

US\$ MILLIONS

	2022	2021
Gross	\$ 30,086	\$ 8,497
Reinsurance assets	(576)	(169)
Total insurance reserves	\$ 29,510	\$ 8,328

Reinsurance assets reflect immediate and deferred annuity payments ceded under the reinsurance arrangements.

The following table summarizes the movement between insurance reserves for the periods ended June 30, 2022 and June 30, 2021 by its major components:

Future Policy Benefits

FOR THE THREE MONTHS ENDED

JUN. 30 2022

US\$ MILLIONS

	Life	Annuities	Health	Gross reserves	Reinsurance assets	Net
Beginning of period	\$ —	\$ 8,512	\$ —	\$ 8,512	\$ 148	\$ 8,364
Changes during the period						
Acquisition from business combination	3,459	1,627	46	5,132	7	5,125
New business	1	1,228	—	1,229	—	1,229
Normal changes	(236)	(169)	—	(405)	95	(500)
Management actions and changes in assumptions	—	16	—	16	—	16
	3,224	2,702	46	5,972	102	5,870
Impact of foreign exchange ¹	—	(74)	—	(74)	(4)	(70)
Balance at end of period	\$ 3,224	\$ 11,140	\$ 46	\$ 14,410	\$ 246	\$ 14,164

Future Policy Benefits

FOR THE SIX MONTHS ENDED
JUN. 30 2022
US\$ MILLIONS

	Life	Annuities	Health	Gross reserves	Reinsurance assets	Net
Beginning of period	\$ —	\$ 8,497	\$ —	\$ 8,497	\$ 169	\$ 8,328
Changes during the period						
Acquisition from business combination	3,459	1,627	46	5,132	7	5,125
New business	1	1,535	—	1,536	—	1,536
Normal changes	(236)	(520)	—	(756)	73	(829)
Management actions and changes in assumptions	—	53	—	53	—	53
	3,224	2,695	46	5,965	80	5,885
Impact of foreign exchange ¹	—	(52)	—	(52)	(3)	(49)
Balance at end of period	\$ 3,224	\$ 11,140	\$ 46	\$ 14,410	\$ 246	\$ 14,164

Future Policy Benefits

FOR THE THREE MONTHS ENDED
JUN. 30 2021
US\$ MILLIONS

	Life	Annuities	Health	Gross reserves	Reinsurance assets	Net
Beginning of period	\$ —	\$ 1,264	\$ —	\$ 1,264	\$ 178	\$ 1,086
Changes during the period						
New business	—	52	—	52	—	52
Normal changes	—	6	—	6	(4)	10
Management actions and changes in assumptions	—	1	—	1	(1)	2
	—	59	—	59	(5)	64
Impact of foreign exchange ¹	—	16	—	16	3	13
Balance at end of period	\$ —	\$ 1,339	\$ —	\$ 1,339	\$ 176	\$ 1,163

Future Policy Benefits

FOR THE SIX MONTHS ENDED

JUN. 30 2021

US\$ MILLIONS

	Life	Annuities	Health	Gross reserves	Reinsurance assets	Net
Beginning of period	\$ —	\$ 1,339	\$ —	\$ 1,339	\$ 190	\$ 1,149
Changes during the period						
New business	—	55	—	55	—	55
Normal changes	—	(94)	—	(94)	(18)	(76)
Management actions and changes in assumptions	—	5	—	5	(2)	7
	—	(34)	—	(34)	(20)	(14)
Impact of foreign exchange ¹	—	34	—	34	6	28
Balance at end of period	\$ —	\$ 1,339	\$ —	\$ 1,339	\$ 176	\$ 1,163

Policy and contract claims

FOR THE THREE AND SIX MONTHS ENDED JUN. 30 2022

US\$ MILLIONS

	Gross reserves	Reinsurance assets	Net
Beginning of period	\$ —	\$ —	\$ —
Changes during the period			
Acquisition from business combination	1,706	116	1,590
New business	—	—	—
Normal changes	12	211	(199)
Management actions and changes in assumptions	16	3	13
	1,734	330	1,404
Balance at end of period	\$ 1,734	\$ 330	\$ 1,404

1. Foreign currency translation reported as a separate component of other comprehensive income.

The following table presents movement in Policyholders' account balances:

FOR THE THREE AND SIX MONTHS ENDED JUN. 30 2022 US\$ MILLIONS	Three Months Ended		Six Months Ended	
	2022	2021	2022	2021
Beginning of period	\$ —	\$ —	\$ —	\$ —
Changes during the period				
Acquisition from business combination	13,939	—	13,939	—
Policyholders' account deposits	141	—	141	—
Interest credited to policyholders' account balances	5	—	5	—
Policyholders' account withdrawals	(112)	—	(112)	—
Charges to policyholders' account balances	(31)	—	(31)	—
Balance at end of period	\$ 13,942	\$ —	\$ 13,942	\$ —

Under fair value accounting required by our Canadian PRT business, movement in the fair value of the supporting assets is a primary driver of the movement of insurance reserves. In a duration matched portfolio, changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the insurance reserves associated with the change in the value of the supporting assets is included within normal changes above. The insurance reserve from reinsurance activities is not sensitive to the fair value of the supporting assets under US GAAP reserve methodology.

The increases in future policy benefits during the three months ended and six months ended June 30, 2022 were mainly due to the impact of the acquisition of American National of \$5.1 billion and the new business of \$1.2 billion and \$1.5 billion, offset by the negative impact of normal changes of \$500 million and \$829 million respectively, which was primarily driven by the market value changes from increases in interest rates. Management actions and changes in assumptions increased future policy benefits by \$16 million for the three months ended and \$53 million for the six months ended June 30, 2022, resulting in net increases in future policy benefits, before the negative impact of foreign exchange of \$70 million and \$49 million respectively.

For the three and six months ended June 30, 2022, the policy and contract claims increased by \$1.4 billion primarily driven by the additions from the acquisition of American National.

The acquisition of American National resulted in negative VOBA of \$781 million related to the life and annuity business, and has been recognized in the Company's future policy benefits (life and annuities) and policyholders' account balances. Negative VOBA is amortized over 30 years using the straight-line method. Amortized negative VOBA revenue of \$2 million was recorded since the acquisition date and we expect to record an additional \$12 million for the remainder of 2022.

NOTE 9. CORPORATE AND SUBSIDIARY BORROWINGS

The Company and its subsidiaries have bilateral revolving credit facilities backed by global banks. The total available amount on the credit facilities is \$500 million. The credit facilities bear interest at the specified SOFR, CDOR, or bankers' acceptance rate plus a spread and have a maturity date of June 2027. As at June 30, 2022, \$122 million was drawn on the bilateral credit facilities.

The Company has a \$1.0 billion 364-day revolving credit facility for the purpose of temporarily warehousing investments that will ultimately be transferred into our insurance investment portfolios in the near term. The facility borrowings are secured by the underlying investments related to the credit facility drawings. As at June 30, 2022, the facility had \$672 million outstanding.

In April 2022, the Company entered into a \$1.0 billion 364-day secured facility. As at June 30, 2022, the facility was fully drawn.

The facilities require the Company to maintain a minimum net worth covenant. At at June 30, 2022, the Company was in compliance with its financial covenants.

The Company also has a revolving credit facility with Brookfield that, as at June 30, 2022, permitted borrowings of up to \$400 million. As at June 30, 2022, there were no amounts drawn on the facility.

Subsidiary borrowings of \$1.5 billion relates to debt issued at American National.

NOTE 10. GOODWILL

Goodwill is the excess of cost over the estimated fair value of net assets acquired. As at June 30, 2022, the Company had \$176 million in goodwill which was related to the Direct Insurance segment. There is no accumulated impairment balance associated with goodwill. The Company performs a goodwill impairment analysis annually as of December 31, and more frequently if facts and circumstances indicate that goodwill may be impaired.

The reconciliation of the carrying value of goodwill is in the following table:

AS AT AND FOR THE SIX MONTHS ENDED JUN. 30 US\$ MILLIONS	2022	2021
Cost		
Balance, beginning of period	\$ —	\$ —
Acquisition from business combination	176	—
Impairment	—	—
Balance, end of period	\$ 176	\$ —

NOTE 11. SHARE CAPITAL

The Company is authorized to issue:

- i. 1,000,000,000 Exchangeable Class A Limited Voting Shares with a par value of \$39.74 per share;
- ii. 500,000 Class B Limited Voting Shares with a par value of \$39.74 per share;
- iii. 1,000,000,000 Class C Non-Voting Shares with a par value of \$1 per share;
- iv. 100,000,000 Class A Senior Preferred Shares (issuable in series) with a par value of \$25 per share;
- v. 100,000,000 Class B Senior Preferred Shares (issuable in series) with a par value of CAD\$25 per share;
- vi. 1,000,000,000 Class A Junior Preferred Shares (issuable in series) with a par value of \$25 per share;
- vii. 1,000,000,000 Class B Junior Preferred Shares (issuable in series) with a par value of CAD\$25 per share.

The share capital of the Company as at June 30, 2022 and December 31, 2021 comprises the following:

	June 30, 2022		December 31, 2021	
	Number of shares	Value	Number of shares	Value
Issued				
Class A exchangeable shares	10,877,989	\$ 532	10,877,989	\$ 535
Class B shares	24,000	1	24,000	1
Class C shares	34,815,014	1,413	23,544,548	963
Class A Junior Preferred shares	98,351,547	2,459	—	—
Share capital		<u>\$ 4,405</u>		<u>\$ 1,499</u>

On May 25, 2022, the Company issued 11,270,466 Class C common shares for \$450 million and 98,351,547 Class A junior preferred shares for \$2.5 billion to Brookfield.

NOTE 12. EARNINGS PER SHARE

The components of basic earnings per share are summarized in the following table:

FOR THE PERIOD ENDED JUN. 30 2022 US\$ MILLIONS, EXCEPT PER SHARE AMOUNTS	Three Months Ended		Six Months Ended	
	2022	2021	2022	2021
Net income for the year	\$ 1	\$ 2	\$ 129	\$ 5
Attributable to:				
Brookfield Asset Management Inc.	—	2	—	5
Class A exchangeable and Class B shareholders	1	—	3	—
Class C shareholders	2	—	128	—
Non-controlling interests	(2)	—	(2)	—
Weighted average shares – Class C shares	28,003,194	16,934,688	25,786,188	16,934,688
Earnings per share per class C share basic	\$ 0.06	\$ 0.00	\$ 4.99	\$ 0.00

NOTE 13. RELATED PARTY TRANSACTIONS

In the normal course of operations, the Company entered into the transactions below with related parties.

a) BAM Re agreements

Brookfield provided to the Company an equity commitment in the amount of \$2.0 billion to fund future growth, which the Company may draw on from time to time. As of June 30, 2022, there was no amount drawn under the equity commitment.

As of June 30, 2022, there were no amounts drawn on the credit facilities under the Brookfield Credit Agreement.

The Company entered into the Support Agreement on June 28, 2021. The base fee for the three months ended June 30, 2022 was \$Nil (June 30, 2021 - \$Nil), and for the six months ended June 30, 2022 was \$Nil (June 30, 2021 - \$Nil).

The Company entered into the Rights Agreement on June 28, 2021. The base fee for the three months ended June 30, 2022 was \$Nil (June 30, 2021 - \$Nil), and for the six months ended June 30, 2022 was \$Nil (June 30, 2021 - \$Nil).

The Company entered into the Administration Agreement on June 28, 2021. The base fee for the three months ended June 30, 2022 was \$0.3 million (June 30, 2021 - \$Nil), and for the six months ended June 30, 2022 was \$0.5 million (June 30, 2021 - \$Nil). On August 5, 2022, the Administration Agreement was amended to include providing the services of the Chief Financial Officer.

The Company entered into an Investment Management Agreement with Brookfield on June 28, 2021. The base investment management fee for the three months ended June 30, 2022 was \$7 million (June 30, 2021 - \$Nil), and for the six months ended June 30, 2022 was \$11 million (June 30, 2021 - \$Nil).

The Company entered into the Brookfield Licensing Agreement on June 28, 2021. The base fee for the three months ended June 30, 2022 was \$Nil (June 30, 2021 - \$Nil), and for the six months ended June 30, 2022 was \$Nil (June 30, 2021 - \$Nil).

b) Other related party transactions

On March 10, 2020, BAC entered into a lease arrangement with Brookfield Properties (Canada) Inc. ("BPO"), a related party of Brookfield. The lease arrangement was conducted in the normal course of operations and on market terms. The amount paid to BPO for the leased office facilities and building maintenance for the three months ended June 30, 2022 totaled \$0.2 million (June 30, 2021 - \$0.2 million), and for the six months ended June 30, 2022 totaled \$0.3 million (June 30, 2021 - \$0.2 million). As at June 30, 2022, lease liabilities relating to this arrangement were \$1.7 million (June 30, 2021 - \$1.3 million).

BAC entered into outsourcing arrangements with Brookfield related to information technology, investment fund management, building maintenance, and internal audit services. The amount paid to Brookfield for these services for the three months ended June 30, 2022 totaled \$0.2 million (June 30, 2021 - \$0.2 million), and for the six months ended June 30, 2022 totaled \$0.4 million (June 30, 2021 - \$0.2 million). Amounts due to Brookfield related to outsourcing arrangements at June 30, 2022 totaled \$0.1 million (June 30, 2021 - \$0.1 million).

During the quarter, subsidiaries of the Company purchased investments of \$452 million from Brookfield and its subsidiaries. Investment transactions with related parties are accounted for in the same manner as those with unrelated parties in the interim financial statements.

During the quarter, NER SPC fully repaid its outstanding loan balance with Brookfield Treasury Management Inc. ("BTMI").

During the quarter, BTMI advanced BAM Re Holdings \$159 million via a promissory note repayable within six months.

The Company had \$70 million of cash on deposit with wholly-owned subsidiaries of Brookfield as at June 30, 2022. During the quarter, the Company had drawings of approximately \$40 million on the deposit to fund new reinsurance and PRT transactions, as well as various investments.

NOTE 14. SEGMENT REPORTING

Effective in the second quarter of 2022, the Company's operations are organized into three operating segments: Reinsurance, PRT and Direct Insurance. These segments are regularly reviewed by the Company's chief operating decision maker ("CODM") for the purpose of allocating resources to the segment and to assess its performance. Prior to this, operations were attributable to two segments: Reinsurance and PRT. During the second quarter of 2022, the Company acquired American National and thus, reporting to the CODM was changed. The periods presented prior to the acquisition of American National reflect the Company's operations attributable to two segments.

The key measure used by the CODM in assessing performance and in making resource allocation decisions is Distributable Operating Earnings ("Distributable Operating Earnings", or "DOE").

Distributable Operating Earnings is calculated as net income excluding the impact of depreciation and amortization, deferred income taxes, net income from our equity accounted investments, mark-to-market on investments and derivatives, breakage and transaction costs, and is inclusive of our proportionate share of adjusted earnings from our investments in associates. DOE allows the CODM to evaluate the Company's segments on the basis of return on invested capital generated by its operations and allows the Company to evaluate the performance of its segments

The tables below provide each segment's results in the format that the CODM reviews its reporting segments to make decisions and assess performance.

FOR THE THREE MONTHS ENDED JUN. 30 2022 US\$ MILLIONS	Reinsurance ¹	Pension Risk Transfer ²	Direct Insurance ³	Total
Net premiums	\$ 221	\$ 1,010	\$ 223	\$ 1,454
Other net investment income, including funds withheld	49	24	101	174
Segment revenues	270	1,034	324	1,628
Proportionate share of equity accounted investment adjusted earnings	15	—	—	15
Benefits paid on insurance contracts, net	(69)	(34)	(181)	(284)
Changes in insurance reserves, net	(210)	(992)	(1)	(1,203)
Changes in deferred acquisition costs	35	—	17	52
Interest credited to other policyholder account balances	—	—	(5)	(5)
Other reinsurance expenses	(28)	—	(62)	(90)
Operating expenses excluding transactions costs	(2)	(3)	(44)	(49)
Interest expense	(5)	—	(5)	(10)
Current income tax recovery	—	—	1	1
Segment DOE	6	5	44	55
Corporate expenses				(9)
Interest expense on junior preferred shares				(11)
Depreciation expense				(3)
Income tax expenses				(7)
Transaction costs				(20)
Other mark-to-market on investments and derivatives				(38)
Other corporate activities				—
Less: Proportionate share of equity accounted investment adjusted earnings				(15)
Add: Income from equity accounted investments				49
Net income				\$ 1

1. Net premiums in our Reinsurance segment are attributed to insurance contracts assumed from other companies.
2. Net premiums in our PRT segment include \$1 million of insurance contracts ceded to other counterparties.
3. Net premiums in our Direct Insurance segment include \$81 million of insurance contracts ceded to other counterparties.

FOR THE SIX MONTHS ENDED JUN. 30 2022
 US\$ MILLIONS

	Reinsurance ¹	Pension Risk Transfer ²	Direct Insurance ³	Total
Net premiums	\$ 426	\$ 1,119	\$ 223	\$ 1,768
Other net investment income, including funds withheld	86	58	101	245
Segment revenues	512	1,177	324	2,013
Proportionate share of equity accounted investment adjusted earnings	31	—	—	31
Benefits paid on insurance contracts, net	(173)	(64)	(181)	(418)
Changes in insurance reserves, net	(346)	(1,101)	(1)	(1,448)
Changes in deferred acquisition costs	59	—	17	76
Interest credited to other policyholder account balances	—	—	(5)	(5)
Other reinsurance expenses	(55)	—	(62)	(117)
Operating expenses excluding transactions costs	(7)	(6)	(44)	(57)
Interest expense	(11)	—	(5)	(16)
Current income tax recovery	—	—	1	1
Segment DOE	10	6	44	60
Corporate expenses				(13)
Interest expense on junior preferred shares				(11)
Depreciation expense				(3)
Income tax expenses				(12)
Transaction costs				(24)
Other mark-to-market on investments and derivatives				90
Other corporate activities				11
Less: Proportionate share of equity accounted investment adjusted earnings				(31)
Add: Income from equity accounted investments				62
Net income				\$ 129

1. Net premiums in our Reinsurance segment are attributed to insurance contracts assumed from other companies.
2. Net premiums in our PRT segment include \$1 million of insurance contracts ceded to other counterparties.
3. Net premiums in our Direct Insurance segment include \$81 million of insurance contracts ceded to other counterparties.

FOR THE THREE MONTHS ENDED JUN. 30 2021 US\$ MILLIONS	Reinsurance	Pension Risk Transfer	Direct Insurance	Total
Net premiums	\$ —	\$ 50	\$ —	\$ 50
Other net investment income, including funds	—	9	—	9
Segment revenues	—	59	—	59
Benefits paid on insurance contracts, net	—	(15)	—	(15)
Changes in insurance reserves, net	—	(39)	—	(39)
Other reinsurance expenses	—	—	—	—
Operating expenses excluding transactions costs	—	(6)	—	(6)
Segment DOE	—	(1)	—	(1)
Income tax expense				—
Other mark-to-market on investments and derivatives				3
Net income				\$ 2

FOR THE SIX MONTHS ENDED JUN. 30 2021 US\$ MILLIONS	Reinsurance	Pension Risk Transfer	Direct Insurance	Total
Net premiums	\$ —	\$ 52	\$ —	\$ 52
Other net investment income, including funds	—	20	—	20
Segment revenues	—	72	—	72
Benefits paid on insurance contracts, net	—	(26)	—	(26)
Changes in insurance reserves, net	—	(40)	—	(40)
Other reinsurance expenses	—	—	—	—
Operating expenses excluding transactions costs	—	(9)	—	(9)
Segment DOE	—	(3)	—	(3)
Income tax expense				—
Transaction costs				1
Other mark-to-market on investments and derivatives				7
Net income				\$ 5

Our Reinsurance business is focused primarily on the reinsurance of annuity-based products and transacts with direct insurers and other reinsurers.

For the purpose of monitoring segment performance and allocating resources between segments, the CODM monitors the assets, including investments accounted for using the equity method, liabilities and common equity attributable to each segment.

AS AT JUN.30, 2022 US\$ MILLIONS	Reinsurance	Pension Risk Transfer	Direct Insurance	Other ¹	Total
Assets	\$ 7,782	\$ 3,119	\$ 28,912	\$ 1,206	\$ 41,019
Liabilities	6,806	2,828	25,359	4,718	39,711
Equity	976	291	3,553	(3,512)	1,308

AS AT DEC.31, 2021 US\$ MILLIONS	Reinsurance	Pension Risk Transfer	Direct Insurance	Other ¹	Total
Assets	\$ 7,921	\$ 2,473	\$ —	\$ 1,099	\$ 11,493
Liabilities	6,803	2,269	—	986	10,058
Equity	1,118	204	—	113	1,435

1 .Other represents assets, liabilities and common equity attributable to other activities that do not constitute a segment.

NOTE 15. FINANCIAL COMMITMENTS AND CONTINGENCIES

Commitments

As at June 30, 2022, subsidiaries of the Company had loan commitment agreements with third parties to the maximum of \$489 million exclusive of taxes and other operating expenses (2021 - \$463 million). As at June 30, 2022, \$119 million was loaned (December 31, 2021 - \$81 million). The amount were recognized as loans and receivables and unrated bonds.

American National and its subsidiaries lease insurance sales office space, technological equipment, and automobiles. The remaining long-term lease commitments at June 30, 2022 were approximately \$14 million and are included in the Company's condensed consolidated statements of financial position within other liabilities.

American National had aggregate commitments at June 30, 2022 to purchase, expand or improve real estate, to fund fixed interest rate mortgage loans, and to purchase other invested assets of \$1.9 billion of which \$852 million is expected to be funded in 2022 with the remainder funded in 2023 and beyond.

American National had outstanding letters of credit in the amount of \$4 million as of June 30, 2022 and December 31, 2021.

Federal Home Loan Bank (FHLB) Agreements

American National has access to the FHLB's financial services including advances that provide an attractive funding source for short term borrowing and for access to other funding agreements. As of June 30, 2022, certain municipal bonds and collateralized mortgage obligations with a fair value of approximately \$21 million and commercial mortgage loans of approximately \$1.4 billion were on deposit with the FHLB as collateral for borrowing. As of June 30, 2022, the collateral provided borrowing capacity of approximately \$903 million. The deposited securities and commercial mortgage loans are included in the Company's condensed consolidated statements of financial position within investments.

Guarantees

American National has guaranteed bank loans for customers of a third-party marketing operation. The bank loans are used to fund premium payments on life insurance policies issued by American National. The loans are secured by the cash values of the life insurance policies. If the customer were to default on a bank loan, American National would be obligated to pay off the loan. As the cash values of the life insurance policies always equal or exceed the balance of the loans, management does not foresee any loss on these guarantees. The total amount of the guarantees outstanding as of June 30, 2022, was approximately \$121 million, while the total cash value of the related life insurance policies was approximately \$141 million.

Litigation

American National and certain subsidiaries are defendants in various lawsuits concerning alleged breaches of contracts, various employment matters, allegedly deceptive insurance sales and marketing practices, and miscellaneous other causes of action arising in the ordinary course of operations. Certain of these lawsuits include claims for compensatory and punitive damages. We provide accruals for these items to the extent we deem the losses probable and reasonably estimable. Based upon information presently available, management is of the opinion that the ultimate resultant liability, if any, would not have a material adverse effect on American National's condensed consolidated financial position, liquidity or results of operations; however, assessing the eventual outcome of litigation necessarily involves forward-looking speculation as to judgments to be made by judges, juries and appellate courts in the future.

Such speculation warrants caution, as the frequency of large damage awards, which bear little or no relation to the economic damages incurred by plaintiffs in some jurisdictions, continues to create the potential for an unpredictable judgment in any given lawsuit. These lawsuits are in various stages of development, and future facts and circumstances could result in management changing its conclusions. It is possible that, if the defenses in these lawsuits are not successful, and the judgments are greater than management can anticipate, the resulting liability could have a material impact on our condensed consolidated financial position, liquidity, or results of operations. With respect to the existing litigation, management currently believes that the possibility of a material judgment adverse to American National is remote. Accruals for losses are established whenever they are probable and reasonably estimable. If no one estimate within the range of possible losses is more probable than any other, an accrual is recorded based on the midpoint of the range.

NOTE 16. CAPITAL MANAGEMENT

Capital management is the on-going process of determining and maintaining the quantity and quality of capital appropriate to take advantage of the Company's growth opportunities, to support the risks associated with the business and to optimize shareholder returns while fully complying with the regulatory capital requirements.

The Company takes an integrated approach to risk management that involves the Company's risk appetite and capital requirements. The enterprise risk management framework includes a capital management policy that describes the key processes related to capital management. The capital management policy is reviewed at least annually and approved by the Board of Directors. The operating capital levels are determined by the Company's risk appetite and Own Risk and Solvency Assessment ("ORSA"). Furthermore, stress techniques that include the Financial Conditions Testing ("FCT") are used to evaluate the Company's capital adequacy under sustained adverse scenarios.

BAC is subject to Life Insurance Capital Adequacy Test ("LICAT") as determined by OSFI. The LICAT ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The total capital resources are provided by the sum of Available Capital, Surplus Allowance and Eligible Deposits.

NER SPC and American National are required to follow Risk Based Capital ("RBC") requirements based on guidelines of the National Association of Insurance Commissioners ("NAIC"). RBC is a method of measuring the level of capital appropriate for an insurance company to support its overall business operations, in light of its size and risk profile. It provides a means of assessing capital adequacy, where the degree of risk taken by the insurer is the primary determinant.

NER Ltd. is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin and the enhanced capital requirement as determined by the Bermuda Monetary Authority ("BMA"). The Enhanced Capital Requirement ("ECR") is calculated based on the Bermuda Solvency Capital Requirement model, a risk-based model that takes into account the risk characteristics of different aspects of the company's business.

The Company has determined that it is in compliance with all capital requirements as at June 30, 2022 and December 31, 2021.