EXHIBIT 13(b)

Annual Report of Brookfield Reinsurance for the Year-End 2021

Brookfield

2021
ANNUAL
REPORT

Brookfield Asset Management Reinsurance Partners Ltd.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Brookfield Asset Management Reinsurance Partners Ltd.

Opinion on the Financial Statements

We have audited the accompanying combined consolidated statements of financial position of Brookfield Asset Management Reinsurance Partners Ltd. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related combined consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows, for each of the three years in the period ended December 31, 2021, and the related notes, and the schedule of the Condensed Financial Statements of Brookfield Asset Management Reinsurance Partners Ltd. (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2021, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of Insurance Reserves - Refer to Notes 2(r) and 10 to the financial statements

Critical Audit Matter Description

The Company has significant insurance reserves representing the majority of its total liabilities. The Company uses different actuarial methodologies to determine insurance reserves depending on the nature of the underlying contract products and applicable jurisdictional guidance, as is permitted by IFRS 4, Insurance Contracts, some of which involve high levels of complexity.

While there are many assumptions which management makes to determine insurance reserves, the assumptions with the greatest uncertainty are those related to mortality and surrender, lapse and withdrawal rates (collectively "policyholder behaviour"). These assumptions required subjective and complex auditor judgment in certain circumstances, including where (i) there is limited company and industry experience data, (ii) the historical experience may not be a good indicator of the future, and (iii) the policyholder behaviour may be irrational. Auditing of certain valuation methodologies and assumptions required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve actuarial specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to valuation methodologies and assumptions related to mortality and policyholder behaviour included the following, among others:

- With the assistance of actuarial specialists, we tested the reasonableness of mortality and policyholder behaviour assumptions, by:
    - Evaluating management's methods and assumptions in accordance with applicable actuarial principles and practices under actuarial standards of practice.
    - Testing inputs used in the determination of the mortality and policyholder behaviour assumptions.
    - Analyzing management's methods and interpretation of data used to adjust industry tables, applying industry guidance, evaluating triggers and drivers for revisions of assumptions, assessing reasonably possible alternative assumptions, and considering industry and other external sources of data, where applicable.
    - With the assistance of actuarial specialists, we tested the appropriateness of valuation methodologies used in the estimation process by:
    - Testing the accuracy of the actuarial models for implementation of key assumptions and valuation methodology.
    - Evaluating a sample of underlying insurance contracts to assess that the appropriate actuarial models were selected and key assumptions were incorporated in those actuarial models for the reinsurance deals undertaken.
    - Calculating an independent estimate of the insurance contract liability for a sample of insurance policies included in the reinsurance deals undertaken and comparing the results to the Company's results.

Accounting for Structured Entities - Refer to Note 2(ai) to the financial statements

Critical Audit Matter Description

The Company invests a portion of its assets in structured entities ("entities"). These entities issued debt and preferred share securities to the Company's reinsurance treaty accounts, including modified coinsurance accounts held by third party insurance companies. The Company is not involved in the investment decision process and has a residual economic interest in the entities. The Company determined that it has control over the entities, and as such has consolidated the entities.

The determination of the accounting treatment for the entities required management to evaluate whether the Company exercised control or significant influence over the entities. This involved significant management judgment to interpret the key agreements and related party relationships associated with the entities. Auditing whether the Company exercised control or significant influence over the entities required a high degree of subjectivity which resulted in an increased extent of audit effort including the need to involve technical accounting specialists.

How the Critical Audit Matter Was Addressed in the Audit

With the assistance of technical accounting specialists, our audit procedures related to the evaluation of whether the Company exercised control or significant influence over the entities included the following, among others:

- Assessed the executed agreements with counterparties to understand the nature of the instruments that were issued by the entities to determine which party was exposed, or had rights, to variable returns from their investment in the financial instruments issued by the entities.

- Evaluated related party relationships to understand whether the Company, through such relationships, had power over the entities and the ability to use such power to affect the amount of returns to the Company.

- Evaluated management's assessment of whether the Company exercised control or significant influence over the entities by analyzing specific facts and circumstances against relevant accounting guidance.

/s/ Deloitte LLP
Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
March 22, 2022

We have served as the Company's auditor since 2016.

COMBINED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT DEC. 31 US$ MILLIONS	Note	2021	2020
Assets			
Cash and cash equivalents	3	**$ 393**	$ 35
Investments	3	**4,943**	1,193
Accounts receivable and other	4	**47**	13
Reinsurance funds withheld	3	**4,650**	—
Derivative assets	3	**146**	7
Deferred tax asset	15	**20**	—
Property and equipment	5	**2**	2
Intangible assets	6	**3**	—
Equity accounted investments	8	**344**	—
Deferred acquisition costs	7	**776**	—
Reinsurance assets	10	**169**	190
Total assets		**$ 11,493**	$ 1,440
Liabilities			
Insurance reserves	10	**$ 8,497**	$ 1,339
Accounts payable and other	9	**65**	6
Due to related parties	17	**467**	—
Reinsurance payable		**75**	—
Corporate borrowings	13	**693**	—
Deferred revenue		**82**	—
Liabilities of structured entities		**167**	—
Funds withheld liabilities	3	**12**	12
Total liabilities		**10,058**	1,357
Equity			
Brookfield Asset Management Inc.[1]		**—**	83
Class A exchangeable and Class B[2]		**539**	—
Class C[2]		**896**	—
Total equity		**1,435**	83
Total liabilities and equity		**$ 11,493**	$ 1,440

1. For the periods prior to June 28, 2021. See Note 1(b).
2. For the period from June 28, 2021 to December 31, 2021. See Note 1(b).

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

COMBINED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS, EXCEPT PER SHARE AMOUNTS	Note	**2021**	2020	2019
Premiums				
Gross		**$ 7,207**	$ 431	$ 504
Ceded		**(1)**	(1)	(179)
Net premiums		**7,206**	430	325
Net investment income	3	**60**	84	57
Net investment results from funds withheld	3	**78**	—	—
Total revenues		**7,344**	514	382
Income from equity accounted investments	8	**8**	—	—
Benefits paid on insurance contracts				
Gross		**310**	63	39
Ceded		**(18)**	(25)	(14)
Change in insurance reserves	10			
Gross		**6,958**	457	538
Ceded		**22**	11	(193)
Other reinsurance expenses		**19**	—	—
Operating expenses	14	**35**	6	6
Net hedging expenses		**59**	—	—
Interest expense		**9**	—	—
Total benefits and expenses		**7,394**	512	376
Net (loss) income before income taxes		**(42)**	2	6
Current tax expense	15	**—**	(1)	—
Deferred tax expense	15	**(2)**	—	—
Net (loss) income for the year		**$ (44)**	$ 1	$ 6
Attributable to:				
Brookfield Asset Management Inc.[1]		**5**	1	6
Class A exchangeable and Class B shareholders[2]		**3**	—	—
Class C shareholders[2]		**(52)**	—	—
		$ (44)	$ 1	$ 6
Net income per class C share				
Basic and diluted[3]	16	**$ (2.58)**		

1. For the periods prior to June 28, 2021. See Note 1(b).
2. For the period from June 28, 2021 to December 31, 2021. See Note 1(b).
3. Basic and diluted earnings per share for the years ended December 31, 2020 and 2019 are attributed to our predecessor company Brookfield Annuity Holdings Inc. See Note 2(ag).

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

COMBINED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Net (loss) income	**$ (44)**	$ 1	$ 6
Other comprehensive income (loss) that will be reclassified to net income (loss)			
Equity accounted other comprehensive income	**44**	—	—
Net unrealized (loss) gain on available for sale securities	**(55)**	1	—
Foreign currency translation	**(4)**	2	3
Total other comprehensive (loss) income	**(15)**	3	3
Comprehensive (loss) income	**$ (59)**	$ 4	$ 9
Attributable to:			
Brookfield Asset Management Inc.[1]	**6**	4	9
Class A exchangeable and Class B shareholders[2]	**3**	—	—
Class C shareholders[2]	**(68)**	—	—
	$ (59)	$ 4	$ 9

1. For the periods prior to June 28, 2021. See Note 1(b).
2. For the period from June 28, 2021 to December 31, 2021. See Note 1(b).

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

COMBINED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AS AT AND FOR THE YEAR ENDED DEC. 31 2021 US$ MILLIONS	Note	Brookfield Asset Management Inc.				Class A exchangeable and Class B shareholders				Class C shareholders				
		Share Capital	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Income (Loss)	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	Total Equity
Balance as at January 1, 2021		**$ 78**	**$ 1**	**$ 4**	**$ 83**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 83**
Changes in year:														
Net income (loss)		—	5	—	**5**	—	3	—	**3**	—	(52)	—	**(52)**	**(44)**
Other comprehensive income (loss)		—	—	1	**1**	—	—	—	**—**	—	—	(16)	**(16)**	**(15)**
Comprehensive income (loss)		—	5	1	**6**	—	3	—	**3**	—	(52)	(16)	**(68)**	**(59)**
Other items														
Equity issuances / Reorganization[1]	11	(78)	—	—	**(78)**	539	—	—	**539**	963	—	—	**963**	**1,424**
Return of capital[2]	11	—	—	—	**—**	(3)	—	—	**(3)**	—	—	—	**—**	**(3)**
Common control transaction adjustments[3]		—	(6)	(5)	**(11)**	—	—	—	—	—	1	—	**1**	**(10)**
Total change in year		(78)	(1)	(4)	**(83)**	536	3	—	**539**	963	(51)	(16)	**896**	**1,352**
Balance as at December 31, 2021		**$ —**	**$ —**	**$ —**	**$ —**	**$ 536**	**$ 3**	**$ —**	**$ 539**	**$ 963**	**$ (51)**	**$ (16)**	**$ 896**	**$1,435**

1. See Note 1(b) for details regarding the Spin-off and reorganization.
2. The Company distributed $0.13 in the form of a return of capital per each Class A exchangeable and Class B share in the third and fourth quarters of 2021.
3. See Note 2(c) for details regarding the common control transaction.

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

COMBINED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

AS AT AND FOR THE YEAR ENDED DEC. 31 2020 US$ MILLIONS	Brookfield Asset Management Inc.				Class A exchangeable and Class B shareholders				Class C shareholders				
	Share Capital	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Income (Loss)	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	Total Equity
Balance as at January 1, 2020	**$ 65**	**$ —**	**$ 1**	**$ 66**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 66**
Changes in year:													
Net income	—	1	—	**1**	—	—	—	—	—	—	—	—	**1**
Other comprehensive income	—	—	3	**3**	—	—	—	—	—	—	—	—	**3**
Comprehensive income	—	1	3	**4**	—	—	—	—	—	—	—	—	**4**
Other items													
Equity issuances	13	—	—	**13**	—	—	—	—	—	—	—	—	**13**
Total change in year	13	1	3	**17**	—	—	—	—	—	—	—	—	**17**
Balance as at December 31, 2020	**$ 78**	**$ 1**	**$ 4**	**$ 83**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 83**

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

COMBINED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

AS AT AND FOR THE YEAR ENDED DEC. 31 2019 US$ MILLIONS	Brookfield Asset Management Inc.				Class A exchangeable and Class B shareholders				Class C shareholders				
	Share Capital	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Income (Loss)	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	Total Equity
Balance as at January 1, 2019	$ 60	$ (6)	$ (2)	**$ 52**	$ —	$ —	$ —	**$ —**	$ —	$ —	$ —	**$ —**	**$ 52**
Changes in year:													
Net income	—	6	—	**6**	—	—	—	**—**	—	—	—	**—**	**6**
Other comprehensive income	—	—	3	**3**	—	—	—	**—**	—	—	—	**—**	**3**
Comprehensive income	—	6	3	**9**	—	—	—	**—**	—	—	—	**—**	**9**
Other items													
Equity issuances	5	—	—	**5**	—	—	—	**—**	—	—	—	**—**	**5**
Total change in year	5	6	3	**14**	—	—	—	**—**	—	—	—	**—**	**14**
Balance as at December 31, 2019	**$ 65**	**$ —**	**$ 1**	**$ 66**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 66**

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

COMBINED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Operating activities			
Net (loss) income	**$ (44)**	$ 1	$ 6
Non-cash items affecting net income			
Premium received in kind	**(167)**	—	—
Unrealized gains on investments and derivatives	**33**	(51)	(27)
Net hedging expenses	**(27)**	—	—
Income tax expense	**2**	1	—
Income from equity accounted investments	**(8)**	—	—
Realized gain on investments	**(23)**	—	—
Changes in non-cash balances related to operations			
Changes in reinsurance receivable	**(9)**	—	—
Changes in reinsurance funds withheld	**(4,650)**	—	—
Changes in deferred tax asset	**(24)**	—	—
Changes in reinsurance assets	**22**	10	(193)
Changes in reinsurance payable	**75**	—	—
Changes in insurance reserves	**7,152**	457	538
Changes in deferred revenue	**82**	—	—
Changes in funds withheld liabilities	**—**	12	—
Changes in deferred acquisition costs	**(776)**	—	—
Changes in working capital	**52**	(1)	(6)
Operating activities affecting cash			
Realized gains on investments and derivatives	**(4)**	(3)	(9)
Interest income received	**(51)**	(27)	—
Purchase of derivatives	**(133)**	—	—
Proceeds from disposal of derivatives	**79**	—	—
Cash flows from operating activities	**1,581**	399	309
Investing activities			
Dividends received	**2**	—	—
Interest income received	**51**	27	—
Purchase of investments			
Bonds	**(4,251)**	(971)	(1,010)
Private debt	**(181)**	—	—
Common equity	**(644)**	—	—
Private equity and other	**(219)**	—	(1)
Mortgages	**(185)**	—	(1)
Private loans	**(512)**	(4)	(11)
Sales and maturities of investments			
Bonds	**2,001**	561	754
Common equity	**20**	—	—
Private equity and other	**1**	1	1
Mortgages	**18**	—	—
Private loans	**36**	2	—
Purchase of intangibles	**(1)**	(1)	—
Cash flows from investing activities	**(3,864)**	(385)	(268)

COMBINED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Financing activities			
Issuance of equity	**1,410**	13	5
Return of capital	**(8)**	—	—
Borrowings from related parties	**960**	—	—
Repayments of borrowings to related parties	**(582)**	—	—
Borrowings from external parties	**693**	—	—
Borrowings of structured entities	**167**	—	—
Proceeds from repurchase agreement	**464**	222	245
Repayments of repurchase agreement	**(464)**	(222)	(285)
Cash flows from financing activities	**2,640**	13	(35)
Cash and cash equivalents			
Cash and cash equivalents, beginning of year	**35**	13	8
Net change during the year	**357**	27	6
Foreign exchange on cash balances held in foreign currencies	**1**	(5)	(1)
Cash and cash equivalents, end of year	**$ 393**	$ 35	$ 13

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

NOTE 1. ORGANIZATION AND DESCRIPTION OF THE COMPANY

(a) 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 was established to become a reinsurance business focused on providing capital-based solutions to insurance companies and their 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 original registered head office was 73 Front Street 5th Floor, Hamilton HM 12, Bermuda. During the third quarter, the registered head office was changed to 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") and Brookfield Annuity Company ("BAC").

Through its operating subsidiaries, the Company acts as a direct issuer of pension risk transfer products for pension plan sponsors and provides annuity-based reinsurance products to insurance and reinsurance companies. The Company currently has two operating segments, Reinsurance and Pension Risk Transfer ("PRT").

(b) Spin-off of Brookfield Asset Management Reinsurance Partners Ltd.

On June 28, 2021, Brookfield Asset Management Inc. ("Brookfield Asset Management") completed the spin-off of the Company (the "Spin-off"), which was affected by way of a special dividend of the class A exchangeable limited voting shares ("class A exchangeable shares") of the Company to holders of Brookfield Class A limited voting shares ("Brookfield Class A Shares") and Class B limited voting shares ("Brookfield Class B Shares") as of June 18, 2021 (the "record date"). Pursuant to the special dividend, as of the record date, holders of Brookfield Class A Shares and Class B Shares received one class A exchangeable share for every 145 Brookfield Class A Shares or Class B Shares held. Brookfield Asset Management holds all the class C non-voting shares ("class C shares"), giving it the residual economic interest in the Company, but no voting interest in it.

Prior to the Spin-off, Brookfield Asset Management effected a reorganization so that the Company's PRT business (the "Business") and other investments that were historically owned and operated by Brookfield Asset Management, through its operating entities, were acquired by BAM Re Holdings, a subsidiary of the Company.

The following describes the transactions and agreements resulting from the Spin-off:

(i) Class A exchangeable shares

As part of the Spin-off, Brookfield Asset Management subscribed for 11 million class A exchangeable shares for approximately $538 million in cash. Upon Spin-off, Brookfield Asset Management distributed the 11 million class A exchangeable shares as a special dividend to the Brookfield Asset Management shareholders who hold Brookfield Class A Shares and Brookfield Class B Shares.

(ii) Class B shares

As part of the Spin-off, holders of class B shares ("BAM Re Class B Partners"), through a voting trust, subscribed for 24,000 class B shares for $1 million.

(iii) Class C shares

As part of the Spin-off, Brookfield Asset Management transferred its ownership in the Business along with its holdings of American Equity Investment Life Holding Company ("AEL Holdings") common shares and additional cash for working capital purposes to the Company. The total value of the consideration provided to the Company was approximately $712 million, which was exchanged for 17 million class C shares. In October 2021, the Company issued an additional 7 million class C shares to Brookfield Asset Management for consideration of $250 million. As at December 31, 2021, there were 24 million class C shares outstanding. Brookfield Asset Management owns all the issued and outstanding class C shares.

(iv) Equity Commitment

As part of the Spin-off, Brookfield Asset Management 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. The equity commitment may be called by the Company in exchange for the issuance of a number of class C shares or junior preferred shares. Further details of the equity commitment are described in Note 17.

(v) Credit Agreement

As part of the Spin-off, the Company entered into a credit agreement with Brookfield Asset Management (the "Brookfield Credit Agreement") as lender on June 28, 2021, providing for a three-year revolving $200 million credit facility. On March 9, 2022, the revolving credit facility agreement was increased to $400 million. Further details of the Brookfield Credit Agreement are described in Note 17.

(vi) Support Agreement

As part of the Spin-off, the Company entered into a support agreement with Brookfield Asset Management (the "Support Agreement"). Brookfield Asset Management has agreed to support the economic equivalence of the class A exchangeable shares and Brookfield Class A Shares for so long as class A exchangeable shares not owned by Brookfield Asset Management are outstanding, and there has not been an amendment to the exchange feature by agreeing to, among other things, take all actions reasonably necessary to enable the Company to pay quarterly distributions, the liquidation amount, or the amount payable on a redemption of class A exchangeable shares, as the case may be. Further details of the Support Agreement are described in Note 17.

(vii) Rights Agreement

As part of the Spin-off, the Company entered into a rights agreement with Brookfield Asset Management (the "Rights Agreement"), pursuant to which Brookfield Asset Management has agreed that on the applicable specified exchange date with respect to any class A exchangeable shares submitted for exchange, Brookfield Asset Management will satisfy, or cause to be satisfied, the obligations pursuant to our memorandum of association and by-laws to exchange such subject class A exchangeable shares for Brookfield Class A Shares or its cash equivalent plus any unpaid distributions. Further details of the Rights Agreement are described in Note 17.

(viii) Administration Agreement

As part of the Spin-off, the Company entered into an administration agreement with Brookfield Asset Management (the "Administration Agreement"), pursuant to which Brookfield Asset Management has agreed to provide administrative services to the Company, including the services of our Chief Executive Officer and Chief Investment Officer and certain other administrative services, on a cost-recovery basis. Further details of the Administration Agreement are described in Note 17.

(ix) Investment Management Agreement

As part of the Spin-off, the Company entered into one or more Investment Management Agreements appointing Brookfield Asset Management as the investment manager of certain assets and accounts, including assets backing the liabilities assumed by the Company under the insurance and future reinsurance arrangements, and any assets held as surplus. Further details of the Brookfield Investment Management Agreements are described in Note 17.

(x) Licensing Agreement

As part of the Spin-off, the Company entered into a licensing agreement with Brookfield Asset Management (the "Brookfield Licensing Agreement"), pursuant to which Brookfield Asset Management has granted a non-exclusive, royalty-free sub-license to use the name "Brookfield" and the Brookfield logo. Further details of the Brookfield Licensing Agreement are described in Note 17.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These Combined Consolidated Financial Statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The 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.

The financial statements were authorized for issue by the Board of Directors of the Company on March 22, 2022.

(b) Basis of Consolidation

The financial statements include the accounts of the Company and its consolidated subsidiaries, which are the entities over which the Company has control. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

(c) Continuity of Interest

As described above, BAM Re was established on December 10, 2020 by Brookfield and on June 28, 2021 Brookfield Asset Management completed the Spin-off of the Business to the Company and the special dividend declaration to holders of Brookfield's Class A and B Shares. Brookfield Asset Management 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 are common control transactions. In accordance with the Company and Brookfield Asset Management's accounting policy, the Company has reflected the Business in its financial position and results of operations using Brookfield Asset Management'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 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 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 (see Note 1(b)) 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 17). 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.

(d) Class A exchangeable shares

As described in Note 1 (b)(i), the Company's equity interests include the class A exchangeable shares held by public shareholders. Subject to applicable law, quarterly cash distributions may be made in the form of a dividend or a capital reduction resulting in a return of capital or a combination thereof. Each class A exchangeable share is structured with the intention of providing an economic return equivalent to one Brookfield Class A Share (subject to adjustment to reflect certain capital events). Each class A exchangeable share is exchangeable with Brookfield Asset Management at the option of the holder for one Brookfield Class A Share (subject to adjustment to reflect certain capital events) or its cash equivalent (the form of payment to be determined at the discretion of Brookfield Asset Management), plus unpaid distributions. Brookfield Asset Management currently intends to satisfy any exchange requests on the class A exchangeable shares through the delivery of Brookfield Class A Shares rather than cash. Each class A exchangeable share, held on the record date, has voting rights and is entitled to cast one vote at a meeting of shareholders of the Company.

The class A exchangeable shares are classified as equity instruments. The class A exchangeable shares are issued capital of the Company and as a result are not adjusted for changes in market value.

(e) Class B shares

As described in Note 1 (b)(ii), the Company's equity interests include the class B shares held by BAM Re Class B Partners. Subject to applicable law, quarterly cash distributions may be made in the form of a dividend or a capital reduction resulting in a return of capital or a combination thereof. Distributions on the class B shares will be paid, or in the case of a distribution made pursuant to a capital reduction, will be returned, in each case, at the same time and in the same amount per share as dividends on a Brookfield Class A Shares. The BAM Re Class B Partners are entitled to one vote on any matter and can cast one vote for each class B share held at the record date.

The class B shares are classified as equity instruments. The class B shares are issued capital of the Company and as a result are not adjusted for changes in market value.

(f) Class C shares

As described in Note 1 (b)(iii), the Company's equity interests include the class C shares held by Brookfield Asset Management. The class C shares are non-voting shares that are entitled to the residual economic interest in the Company after payment in full of the amount due to holders of our class A exchangeable shares and our class B shares and subject to the prior rights of holders of the Preferred Shares.

The class C shares are classified as equity instruments. The class C shares are issued capital of the Company and as a result are not adjusted for changes in market value.

(g) Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of 90 days or less. The Company classifies cash and cash equivalents at amortized cost.

Cash and cash equivalents exclude cash balances and short-term investments that are for use by the Company as part of the reinsurance funds withheld arrangement (Note 2(i)).

(h) Investments

Investments are financial assets which are comprised of common shares, preferred shares, bonds and fixed-income instruments. The Company uses the trade date to account for investment transactions.

Financial assets are classified into one of the following categories:

- AFS assets are measured at fair value, with changes in fair value recognized in other comprehensive income (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 are classified according to their nature and use by the Company at the time of initial recognition. Financial assets supporting capital and surplus and coinsurance reserves are classified as AFS or as loans and receivables. Unrealized gains (losses) are recognized in other comprehensive income (loss). Upon realization, gains or losses are reclassified to the Combined Consolidated Statements of Operations and recorded in net investment income (loss).

Financial assets supporting insurance reserves under PRT and modified coinsurance reserves under reinsurance are designated as FVTPL or as loans and receivables. Any changes in the fair value of the underlying assets matched to the insurance reserves are directly reflected in the insurance reserves. Unless the asset is deemed to be impaired, changes in fair value of assets matching these liabilities and changes in the corresponding insurance reserves are directly recognized in the 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 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 (loss) and presented in realized gains (losses) on investments which is included in net investment income.

(i) Reinsurance funds withheld

Reinsurance funds withheld is a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which NER Ltd. and NER SPC, indirect wholly owned subsidiaries of the Company, act as reinsurers. The receivable represents assets that are held in custodial accounts that are legally segregated from the third-party ceding companies' general accounts and are managed by NER Ltd. and NER SPC. The assets are typically cash and cash equivalents and fixed income asset types. In the event of ceding companies' insolvency, NER Ltd. and NER SPC would need to assert a claim on the assets supporting the reserve liabilities. However, NER Ltd. and NER SPC have the ability to offset amounts owed to the ceding companies. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance and has all economic rights and obligations on the funds withheld assets, in a fashion similar to the invested assets held directly by NER Ltd. and NER SPC. The underlying agreements contain embedded derivatives as discussed in Derivative financial instruments (Note 2(k)).

(j) Funds withheld liabilities

Funds withheld liabilities represent the payable for amounts contractually withheld in accordance with reinsurance agreements where BAC acts as a cedant. While the assets in the funds withheld liabilities are legally owned by BAC, the reinsurer is subject to all investment performance and economic rights and obligations to the funds withheld assets similar to invested assets held directly by the reinsurer. BAC's funds withheld liabilities balance includes cash and cash equivalents, fixed income securities and derivatives carried at fair value and is credited with premiums, investment income (loss), benefits payable and other expenses deducted as incurred at cost.

(k) Derivative financial instruments

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, 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 (loss), in the Combined Consolidated Statements of Operations.

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

(l) Assets pledged as collateral

The Company receives and pledges collateral in respect to certain derivative contracts, in order to meet its contractual obligations. The amount of collateral required is determined by the valuation of each contract on a mark-to-market basis and the type of collateral to be deposited is specified within the agreement with each counterparty.

Collateral pledged continues to be recognized in the Combined Consolidated Statements of Financial Position as the Company retains all rights related to these assets.

Collateral received is not recognized in the Combined Consolidated Statements of Financial Position unless the Company acquires the rights relating to the economic risks and rewards related to these assets.

(m) Collateralized borrowing transactions

Securities sold under repurchase agreements are collateralized borrowing transactions. A repurchase agreement provides the lender of securities the right to receive from the counterparty sufficient cash to purchase the same securities at the maturity of the agreement. These transactions are measured at amortized cost and are recorded at amounts at which the securities were initially sold.

The Company recognizes an asset in the Combined Consolidated Statements of Financial Position, representing the cash received, and a liability for the same amount, representing the obligation to repurchase the loaned bonds. Repurchase agreements with the same counterparty are presented net in the Combined Consolidated Statements of Financial Position.

(n) Right to offset

Amounts presented in these financial statements are presented on a net basis when there exists both a legally enforceable right to offset the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(o) Impairment

At each reporting date, financial assets are assessed for impairment indicators. The Company considers an impairment loss if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the obligation. For AFS equity investments, a significant and prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, there must be observable data about the loss events, such as, but not limited to, the issuer's financial difficulty, a bankruptcy, default of payment of principal or interest, or specific adverse conditions affecting an industry or a region.

For financial assets measured at amortized cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The impairment loss is recorded in the Combined Consolidated Statements of Operations.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect to AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increases in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss. The reversal cannot exceed the impairment expense amount. The amount of reversal is recorded in the Combined Consolidated Statements of Operations.

At each reporting date, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, non-financial assets that are measured at amortized cost are reviewed for impairment. In addition, irrespective of whether there is any indication of impairment, intangible assets not yet available for use are tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(p) Classification of Financial Instruments

Accrued investment income, reinsurance receivable, due from related party, private loans, mortgages, and other assets have been classified as loans and receivables. Due to related party, reinsurance payable, accounts payable and accrued liabilities, and other liabilities have been classified as other financial liabilities. Loans and receivables and other financial liabilities are measured at amortized cost. For these items, carrying value approximates fair value due to their short-term nature. Further details of the financial instruments are described in Note 3.

(q) Leases

IFRS 16 Leases ("IFRS 16") specifies how to recognize, measure, present, and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases.

The Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

If a contract contains a lease, the Company will recognize a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset and lease liability are initially measured as an amount equal to the present value of the remaining lease payments over the lease. The discount rate used is the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The ROU asset is depreciated to the earlier of the end of the useful life or lease term using the straight-line method as this reflects the expected pattern of use. At each reporting date, the Company assesses whether there is any indication that the ROU asset may be impaired. If an impairment indicator exists, then the Company will adjust the value of the ROU asset to its recoverable amount and an impairment loss is recognized. The ROU asset is included in property and equipment in the Combined Consolidated Statements of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. It is remeasured when there is a change in future lease payments arising from a change in rates or there is a change in the Company's estimate of the amount expected to be payable.

(r) Insurance reserves

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 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

In accordance with IFRS 4, the Company has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards.

The long-term insurance reserves are calculated separately for each product type, based either on local regulatory requirements or existing local GAAP (at the later of the date of transition to IFRS or the date of the acquisition of the entity); and actuarial principles consistent with those applied in each local market.

Insurance reserves 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.

Insurance reserves represent the amount required to provide for future benefits payments and administrative expenses on policies in force with BAC. Insurance reserves are presented gross of reinsurance assets on the Combined Consolidated Statements of Financial Position. BAC's Appointed Actuary is responsible for determining the amount of insurance reserves in accordance with standards established by the CIA. CALM is used to determine insurance reserves 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 insurance reserves cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

BAC has designated invested assets supporting insurance reserves as FVTPL or as loans and receivables. Since the value of the insurance reserves is determined by reference to the assets supporting those reserves, changes in the insurance reserves offset a significant portion of the changes in fair value of these FVTPL assets recorded in net income (loss).

Insurance reserves are determined by NER Ltd. using US GAAP reserve methodology, as permitted by IFRS 4. Insurance reserves 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. Insurance reserves 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.

Insurance reserves are determined by NER SPC using US GAAP reserve methodology, as permitted by IFRS 4. Insurance reserves 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.

(s) Reinsurance assumed

NER Ltd. closed a retrocession agreement on September 3, 2021 with a third party insurance company to reinsure multi-year guarantee fixed annuities. At the time of closing, the retrocession agreement had a retrospective effective date of April 1, 2021, representing the date on which the Company has the reinsurance contractual obligations.

NER Ltd. assumes insurance contracts under modified coinsurance arrangements ("Modco"). NER Ltd. generally has the right of offset on reinsurance contracts but have elected to present reinsurance settlement amounts due to and from the cedant on a gross basis.

Assets and liabilities assumed under Modco are presented gross on the balance sheet. For insurance contracts, the change in assumed reserves and benefits are presented as change in insurance reserves on the Combined Consolidated Statements of Operations. Assumed premiums are included in premiums on the Combined Consolidated Statements of Operations. Expenses outside of account value, such as commissions and federal excise taxes, are included in other reinsurance expenses in the Combined Consolidated Statements of Operations.

NER SPC closed a retrocession agreement on October 8, 2021 with an insurance company which was the Company's associate to reinsure fixed indexed annuities. At the time of closing, the retrocession agreement had a retrospective effective date of July 1, 2021, representing the date on which the Company has the reinsurance contractual obligations.

NER SPC assumes insurance contracts under Modco and Coinsurance. NER SPC generally has the right of offset on reinsurance contracts but have elected to present reinsurance settlement amounts due to and from the cedant on a gross basis.

(t) Reinsurance ceded

In the normal course of business, BAC is a user 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 remains liable to its policyholders for the portion reinsured.

At each reporting date, the reinsurance asset and reinsurance receivable, if any, are assessed for impairment. If there is objective evidence that the reinsurance asset or reinsurance receivable 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.

BAC has two types of reinsurance arrangements.

<u>Longevity reinsurance</u>
BAC enters into longevity reinsurance transactions with third party reinsurers. As part of the agreements, the Company commits to pay the reinsurers a schedule of fixed payments relating to a proportion of defined blocks of policyholder benefits. In return, the reinsurers reimburse the actual cost of their proportion of benefit expenses on those blocks to BAC. Settlement of fixed and actual payments between BAC and the reinsurers are on a net basis. The difference between fixed and actual payments on past service is recognized in the same period as the related claim is incurred within benefits ceded in the Combined Consolidated Statements of Operations. Any unsettled amounts on past service from the reinsurers is recognized as a reinsurance receivable or payable in the Combined Consolidated Statements of Financial Position.

BAC is liable for reinsurance fees for the transactions. The fees are recognized as incurred and are included in ceded premiums in the Combined Consolidated Statements of Operations.

The benefits to which BAC is entitled under its reinsurance transactions are recognized as reinsurance assets in the Combined Consolidated Statements of Financial Position. The reinsurance assets related to longevity reinsurance is the difference between the schedule of fixed and actual benefit payments on a proportion of defined blocks of business.

Quota share reinsurance

BAC enters into quota share reinsurance transactions with third-party reinsurers. The agreement covers policyholder benefits for a proportion of business reinsured. The proportion varies for certain discrete blocks of business.

At the inception of each quota share reinsurance contract, premiums ceded and a corresponding decrease in cash or payable is recognized in proportion to the business reinsured by the external reinsurer. BAC also recognizes a reinsurance asset and a change in insurance reserves ceded in the Combined Consolidated Statements of Financial Position and the Combined Consolidated Statements of Operations, respectively. The benefits to which BAC is entitled under its reinsurance contracts are recognized as reinsurance assets.

The reinsurer is committed to pay BAC a proportion of actual benefit expenses. The amounts are reported in benefits ceded in the same period as the related benefit expense is incurred. In cases where the benefit payments are due but not fully received from the reinsurer, BAC will recognize a reinsurance receivable. In cases where benefit payments are due, but amounts are received in excess from the reinsurer, BAC will recognize a reinsurance payable.

Under reinsurance contracts with unregistered reinsurers, assets are required to be pledged to BAC in order to secure payment of liabilities under the reinsurance agreement. Unregistered reinsurers are reinsurers which are not regulated by OSFI. The pledged assets are held in Canada by a Canadian financial institution that is not affiliated with the third party reinsurer. BAC maintains a valid and enforceable security interest that has priority over any other security interest in the collateral. In the event of default by the reinsurer, BAC has the right to liquidate or take legal possession of these assets, in a timely manner.

(u) Deferred revenue

The deferred revenue for interest-sensitive life and investment-type contracts is amortized over the life of the policies. Different amortization methods are permissible, one of these methods being present value of estimated gross profits. However, if estimated gross profits are expected to be negative, alternative amortization techniques are to be used. Given the absence of initial profits for NER Ltd., the deferred revenue is amortized by number of in-force policies. Estimates of in-force policy numbers are based on assumptions using accepted actuarial methods. Amortization is recorded in total revenue within the Combined Consolidated Statements of Operations.

(v) Deferred acquisition costs

The Company incurs costs in connection with acquiring or renewal of reinsurance business. Costs that are directly related to the successful acquisition of reinsurance contracts are capitalized as deferred acquisitions costs ("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. The DAC is amortized over the life of the policies in proportion to the estimated gross profits.

(w) Premiums

Gross premiums are recognized as revenue when due and collection is reasonably assured. When premiums are recognized, insurance reserves 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.

(x) Benefits paid

Gross benefits and benefits ceded are recorded in the Combined Consolidated Statements of Operations when they are due and incurred.

(y) Net investment income

Interest income is calculated using the effective interest method.

Dividend income is recognized when the right to receive payments is established.

Realized gains (losses) on investments and derivatives represent the difference between net sale proceeds and the purchase price.

Unrealized gains (losses) on investments and derivatives measure the difference between the fair value of investments at the end of each reporting date and their purchase price. The net movement reflects both unrealized gains and losses recognized during the year adjusted for any prior period unrealized gains and losses which have been realized in the current accounting period.

Investment upfront fees are recognized when the performance obligation has been satisfied under the contractual terms and customary business practice, which may be satisfied over time or at a point in time, in accordance with IFRS 15. The amounts are included in net investment income.

(z) Net investment results from funds withheld

Net investment results from funds withheld include investment income on funds withheld investments and changes in the fair value of derivatives embedded in reinsurance contracts, as discussed in Note 2(k). Changes in the fair value of the embedded derivative are included in the net investment results from funds withheld in the Combined Consolidated Statements of Operations.

(aa) Net hedging expenses

Net hedging expenses relate to costs incurred and mark to market movement associated with derivative contracts not directly related to the Company's insurance operating companies' investment portfolios or insurance reserves.

(ab) 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.

(ac) Foreign currencies

The Company's functional currency was changed from Canadian Dollar ("CAD") to USD during the fourth quarter as the primary economic activities which influenced the services provided, investment portfolio and financing activities were based in the United States. Foreign currency denominated monetary assets and liabilities of the Company are translated using the rate of exchange prevailing at the reporting date and non-monetary assets and liabilities measured at fair value are translated at the rate of exchange prevailing at the date when the fair value was determined. Revenues and expenses are measured at average rates during the year. Gains or losses on translation of these items are included in net income.

For purposes of presenting the financial statements, assets and liabilities of the Company are translated using the exchange rate prevailing at the reporting date. Revenue and expenses are measured at transactional or average rates during the year. Gains or losses on translation of these items are included in other comprehensive income.

There was no impact on the financial statements as a result of the change in functional currency, as the Company's presentation was previously determined to be USD.

(ad) Investment in associates

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. We use the equity method to account for our investments in associates within the Combined Consolidated Statements of Financial Position.

Interests in associates accounted for using the equity method are initially recognized at cost. At the time of initial recognition, if the cost of the associate 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 is greater than the Company's proportionate share of the underlying fair value, goodwill relating to the associate is included in the carrying amount of the investment.

Subsequent to initial recognition, the carrying value of the Company's interest in an associate is adjusted for the Company's share of comprehensive income and distributions of the investee. Profit and losses resulting from transactions with an associate are recognized in the financial statements based on the interests of unrelated investors in the investee. The carrying value of associates 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 8.

(ae) 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 five 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.

(af) Segments

In accordance with IFRS 8 Operating Segments, the Company uses a management approach to determine operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker ("CODM") for making decisions, allocation of resources and assessing performance. The Company's CODM has been identified as the Chief Executive Officer who reviews the results of operations when making decisions about allocating resources and assessing performance of the Company. Our operations were reorganized into two reportable segments during the fourth quarter: Reinsurance and PRT (see Note 18).

(ag) Earnings per share

The holders of the class C shares are entitled to received 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 and diluted 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 has 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. Diluted earnings per share are determined by adjusting the weighted average number of shares outstanding for the effects of all dilutive potential shares.

Basic and diluted earnings per share for the year ended December 31, 2020 and 2019 of $18.92 and $67.72, respectively, were calculated by dividing the net income attributable to Brookfield for the year by the weighted average number of BAH common shares (2020 – 85 million, 2019 – 81.6 million, respectively). The earnings per share amounts for December 31, 2020 and 2019 are not comparable to the earnings per share amount for the year ended December 31, 2021 as a result of the Spin-off and the issuance of Class A exchangeable shares, class B shares and class C shares on June 28, 2021. Further details of the Spin-off are described in Note 1(b).

(ah) Accounting estimates and judgements

The preparation of the 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 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 insurance reserves, 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 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 financial statements. The items most susceptible to changes in estimate and judgements are the measurement of reinsurance assets (Note 10), insurance reserves (Note 10), and impairment of available-for-sale securities and loans and receivables (Note 3).

(ai) 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.

(aj) Amendments adopted during the current year

(i) Interest Rate Benchmark Reform

In August 2020, the IASB published Interest Rate Benchmark Reform—Phase 2, which issued amendments to IFRS 9, IAS 39, IFRS 7 Financial Instruments: Disclosures, IFRS 4 and IFRS 16. The amendments complement Interest Rate Benchmark Reform—Phase 1, which was issued in 2019, and focus on the effects on financial statements when the old interest rate benchmark is replaced with an alternative benchmark rate as a result of the reform. The amendments provide relief from remeasurement impacts on financial instruments and discontinuance of hedge relationships arising from reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments were effective for annual reporting periods beginning on or after January 1, 2021.

Most US London Interbank Offered Rate ("LIBOR") values will be discontinued on June 30, 2023. Transition activities in the market are ongoing and are focused on two broad streams of work: (i) developing new alternative risk-free rate linked products and (ii) converting existing LIBOR-based contracts to alternative risk-free rates. Transition activities for the Company include incorporation of contractual provisions for new LIBOR-based financial instruments that provide a means to determining new alternative benchmark rates upon the expiry of LIBOR. The Company invests in the debt securities that pay interest based on floating interest rates indexed to either one-month, three-month or six-month US LIBOR. As at December 31, 2021, the carrying value of these debt securities was $425 million. The Company does not expect the transition to an alternative risk-free rate to have a material impact on its Combined Consolidated Financial Statements and its risk management strategy. The Company does not have any further exposure to LIBOR as at December 31, 2021.

(ak) 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 include 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 Combined Consolidated Statements of Operations. 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. The Company qualifies and has elected to take the deferral approach as its activities are predominantly connected with insurance.

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 is currently assessing the impact of implementing IFRS 9 on the Combined Consolidated Financial Statements. Further details are disclosed in Note 3(h).

(iii) Amendments to IFRS 3

In May 2020, the IASB issued Reference to the Conceptual Framework, which includes amendments to IFRS 3 Business Combinations. The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. The amendments apply to business combinations for which the acquisition date is on or after January 1, 2022. The Company is currently assessing the impact of the adoption of these amendments on the Combined Consolidated Financial Statements.

(iv) Amendments to IAS 37

In May 2020, the IASB issued Onerous Contracts - Cost of Fulfilling a Contract, which includes amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company is currently assessing the impact of the adoption of these amendments on the Combined Consolidated Financial Statements.

(v) Annual Improvements to IFRS Standards 2018-2020

In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018-2020, which includes minor amendments to three IFRS standards applicable to our Combined Consolidated Financial Statements. The amendments apply prospectively. The amendments are effective for annual periods beginning on or after January 1, 2022.

(vi) 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 Combined Consolidated Financial Statements.

(vii) 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 1 January 2023. The Company is currently assessing the impact of the adoption of these amendments on the Combined Consolidated Financial Statements.

(viii) 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 Combined Consolidated Financial Statements.

(al) 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 specifically 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. 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 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**
Bonds				
Government	377	1,287	—	**1,664**
Corporate	1,586	306	—	**1,892**
Private debt	—	208	—	**208**
Total debt securities	**1,963**	**1,801**	—	**3,764**
Common shares	—	275	—	**275**
Preferred shares	4	14	—	**18**
Private equity and other	—	247	—	**247**
Total equity	**4**	**536**	—	**540**
Total loans and receivables	—	—	639	**639**
Total investments	**1,967**	**2,337**	**639**	**4,943**
Reinsurance funds withheld	**4,650**	—	—	**4,650**
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.

AS AT DEC. 31 US$ MILLIONS	2020			
	FVTPL[1]	AFS	Amortized Cost	Total
Cash and cash equivalents				
Cash	$ —	$ —	$ 16	**$ 16**
Cash equivalents	—	—	19	**19**
Total cash and cash equivalents	**—**	**—**	**35**	**35**
Derivatives				
Foreign exchange forwards	5	—	—	**5**
Bond futures	2	—	—	**2**
Total derivative assets	**7**	**—**	**—**	**7**
Bonds				
Government	372	29	—	**401**
Corporate and other	732	36	—	**768**
Total debt securities	**1,104**	**65**	**—**	**1,169**
Total preferred shares	—	3	—	**3**
Total loans and receivables	—	—	21	**21**
Total investments	**1,104**	**68**	**21**	**1,193**
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 by amortized cost approximates their fair value.

The fair value of investments, excluding common shares, preferred shares and cash and cash equivalents, are shown by contractual maturity of investments.

AS AT DEC. 31 US$ MILLIONS	2021	2020
Terms to maturity:		
Bonds:		
Within 1 year	**$ 1,223**	$ 31
1-3 years	**50**	46
4-5 years	**116**	40
Over 5 years	**2,167**	1,052
Private debt:		
Within 1 year	**96**	—
1-3 years	**—**	—
4-5 years	**—**	—
Over 5 years	**112**	—
Loans and receivables		
Within 1 year	**170**	—
1-3 years	**117**	3
4-5 years	**116**	—
Over 5 years	**236**	18
Total	**$ 4,403**	$ 1,190

AFS investments and investments measured at amortized cost are individually evaluated for impairment in establishing the allowance for impairment. For the year ended December 31, 2021, the Company did not incur any impairment expense (December 31, 2020 – $Nil).

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.

AS AT DEC. 31 US$ MILLIONS	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Fair value through profit or loss:				
Bonds	$ —	$ 1,963	$ —	**$ 1,963**
Common shares	243	—	—	**243**
Preferred shares	4	—	—	**4**
Derivative assets	9	137	—	**146**
Reinsurance funds withheld	—	4,650	—	**4,650**
Available for sale:				
Bonds	1,165	428	—	**1,593**
Private debt	—	—	208	**208**
Common shares	1	31	—	**32**
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)**

AS AT DEC. 31 US$ MILLIONS	2020		
	Level 1	**Level 2**	**Total**
Financial assets			
Fair value through profit or loss:			
Bonds	$ —	$ 1,104	**$ 1,104**
Derivative assets	2	5	**7**
Available for sale:			
Bonds	—	65	**65**
Preferred shares	3	—	**3**
Total financial assets	**$ 5**	**$ 1,174**	**$ 1,179**
Financial liabilities			
Fair value through profit or loss:			
Funds withheld liabilities	—	(12)	**(12)**
Total financial liabilities	**$ —**	**$ (12)**	**$ (12)**

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

Type of Asset	Valuation Techniques and Key Inputs
Bonds	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.
Derivative assets/Derivative liabilities	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. 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.
Warrants	Valuation model is based on intrinsic value calculated by the difference between strike prices and the unadjusted quoted prices of underlying equity investments in active markets.
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.
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	• Future cash flows The future cash flows are based on cash flows flowing to the underlying investment	• Increases (decreases) in future cash flows increase (decrease) fair value
		• Discount rate The discount rate reflects the inherent risk of the underlying investment	• Increases (decreases) in discount rate increase (decrease) fair value
Private debt	Discounted cash flows	• Future cash flows The future cash flows include expected interest and principal payments.	• Increases (decreases) in future cash flows increase (decrease) fair value
		• Discount rate The discount rate reflects the credit spreads used and the liquidity conditions of the debt instrument.	• Increases (decreases) in discount rate increase (decrease) fair value

The following table presents the change in the balance of financial assets and liabilities classified as Level 3 as at December 31, 2021 and 2020:

AS AT DEC. 31 US$ MILLIONS	**2021**	2020
Balance, beginning of year	**$ —**	$ —
Fair value changes in other comprehensive income	**4**	—
Additions	**1,021**	—
Disposals	**(8)**	—
Balance, end of year	**$ 1,017**	**$ —**

There were no transfers between Level 1, Level 2 or Level 3 during the years ended December 31, 2021 and 2020.

c) Net investment income

Net investment income is comprised of income earned from the following:

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Interest income			
Cash and cash equivalents	**$ 1**	$ —	$ —
FVTPL investments	**51**	28	19
AFS investments	**12**	2	1
Loans and receivables	**5**	—	—
Total interest income	**69**	30	20
Realized gains on investments and derivatives			
FVTPL investments	**3**	3	10
Derivatives	**14**	—	—
AFS investments	**2**	—	—
Foreign exchange gain/loss	**9**	—	—
Total realized gains on investments and derivatives	**28**	3	10
Unrealized gains (losses) on investments and derivatives			
FVTPL investments	**(60)**	46	26
Derivatives	**27**	6	1
Total unrealized gains (losses) on investments and derivatives	**(33)**	52	27
Investment manager fees	**(4)**	(1)	—
Net investment income	**$ 60**	$ 84	$ 57

d) Net investment results from funds withheld

Net investment results from funds withheld is comprised of income earned from the following:

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Interest income			
FVTPL investments	**$ 29**	$ —	$ —
Total interest income attributable to funds withheld	**29**	—	—
Realized losses on investments and derivatives			
FVTPL investments	**(2)**	—	—
Foreign exchange losses	**(4)**	—	—
Total realized losses on investments and derivatives attributable to funds withheld	**(6)**	—	—
Unrealized losses on investments and derivatives			
FVTPL investments	**(19)**	—	—
Foreign exchange losses	**(1)**	—	—
Total unrealized losses on investments and derivatives attributable to funds withheld	**(20)**	—	—
Other investment income	**75**	—	—
Net investment results from funds withheld	**$ 78**	**$ —**	**$ —**

e) Derivative financial instruments

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, bond futures, bond forwards, currency swaps, interest rate swaps and warrants. Derivative financial instruments are financial contracts whose value is derived from underlying interest rates, exchange rates or other financial instruments.

Foreign exchange forwards, bond forwards, currency swaps, interest rate swaps and warrants are over-the-counter (OTC) contractual agreements negotiated between counterparties. Futures contracts are traded on an organized market and are contractual obligations to buy or to sell a financial instrument at a predetermined future time at a given price.

The notional principal represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent credit exposure. Maximum credit risk is the estimated cost of replacing derivative financial instruments which have a positive value, should the counterparty default. As at December 31, 2021, the derivative counterparty credit risk was $146 million (2020 – $7 million) and the counterparties credit rating was A- or higher (2020 – A+ or higher).

Notional principal by terms of maturity and the fair value of derivatives are presented in the table below.

AS AT DEC. 31, 2021
US$ MILLIONS

	Fair value asset	Fair value liabilities	Collateral pledged	Notional amount: Within 1 year	1-3 years	4-5 years	Over 5 years	Notional principal
Exchange traded								
Bond futures	$ 9	$ —	$ 22	$ 730	$ —	$ —	$ —	$ 730
Over-the-counter								
Foreign exchange forwards	10	—	1	787	59	—	—	846
Warrants	—	—	—	1	—	—	—	1
Currency swaps	—	—	—	—	10	—	8	18
Interest rate swaps	—	(1)	—	—	—	1	71	72
Options	127	—	—	5,802	—	—	—	5,802
Total	**$ 146**	**$ (1)**	**$ 23**	**$ 7,320**	**$ 69**	**$ 1**	**$ 79**	**$ 7,469**

[1]Derivative liabilities are included in the Note 9 Accounts Payable and Other.

AS AT DEC. 31, 2020
US$ MILLIONS

	Fair value asset	Fair value liabilities	Collateral pledged	Notional amount: Within 1 year	1-3 years	4-5 years	Over 5 years	Notional principal
Exchange traded								
Bond futures	$ 2	$ —	$ 13	$ 192	$ —	$ —	$ —	$ 192
Over-the-counter								
Foreign exchange forwards	5	—	—	235	—	—	—	235
Interest rate swaps	—	—	—	—	—	—	7	7
Total	**$ 7**	**$ —**	**$ 13**	**$ 427**	**$ —**	**$ —**	**$ 7**	**$ 434**

The Company monitors the fair values of bond futures and forwards on a daily basis, with additional cash collateral obtained or refunded as necessary.

Bond futures, foreign exchange forwards and options mature in less than 1 year. Interest rate swaps mature in over 4 years and settle on a semi-annual basis. Derivatives are measured at FVTPL and are reported on the Combined Consolidated Statements of Financial Position as derivative assets or derivative liabilities. The fair value of exchange-traded futures contracts is determined based on Level 1 inputs. OTC foreign currency forwards, bond forwards, currency swaps and interest rate swaps are valued on the contract notional amounts, which is the difference between contract and market rates. These inputs are derived from observable market data and as such are classified as Level 2 instruments.

For OTC derivatives, collateral is collected from and pledged to derivative counterparties according to the Credit Support Annexes, which form part of the International Swaps and Derivatives Associations' master agreements, when the exposure exceeds a specified threshold. For exchange-traded derivatives, their positions are margined on a daily basis (both initial margin and variation margin) subject to derivative clearing agreements with the exchanges and clearing houses. As at December 31, 2021, the Company has pledged $23 million of financial assets as collateral under the terms of the derivative contracts (2020 – $13 million).

For an analysis of the Company’s risks arising from financial instruments and the policies and procedures to manage these risks refer to Note 12 Risk Management.

f) Securities sold under repurchase agreements

Securities sold under repurchase agreements are accounted for as collateralized borrowing transactions, are measured at amortized cost and are recorded at the amounts at which the securities were initially sold. Under these agreements, the Company may sell securities from its portfolio for periods of time. In exchange, the Company obtains possession of cash from the financial institution with market values equal to the principal amount sold under these agreements. As at December 31, 2021, the Company did not have amounts outstanding under repurchase agreements (2020 – $Nil). For the year ended December 31, 2021, interest expense paid related to the use of the repurchase agreements was $Nil (2020 – $Nil).

The cash received by the Company is equal to the market value of the securities sold on the trade date. As a result, there is no significant exposure to credit risk associated with these agreements.

g) Summary of investments

AS AT DEC. 31 US$ MILLIONS	2021 **Carrying Amount**	2021 **Percent**	2020 Carrying Amount	2020 Percent
Corporate debt securities				
Corporate bonds	**$ 1,892**	**37 %**	$ 788	66 %
Private debt	**208**	**4 %**	—	— %
Private loans	**517**	**10 %**	—	— %
Mortgages	**122**	**3 %**	—	— %
	2,739	**54 %**	788	66 %
Government bonds				
United States government	**1,271**	**25 %**	25	2 %
Canada government	**61**	**1 %**	35	3 %
Canada provincials	**332**	**7 %**	341	28 %
	1,664	**33 %**	401	33 %
Derivatives				
Foreign exchange forwards	**10**	**— %**	5	— %
Bonds futures	**9**	**— %**	2	— %
Options	**127**	**3 %**	—	— %
	146	**3 %**	7	1 %
Equity				
Preferred shares	**18**	**— %**	3	— %
Common shares	**275**	**5 %**	—	— %
Private equity and other	**247**	**5 %**	—	**— %**
	540	**10 %**	**3**	**— %**
Total	**$ 5,089**	**100 %**	$ 1,199	100 %

h) Solely Payments of Principal and Interest ("SPPI") Disclosure

As noted in Note 2 (aj)(ii), 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.

As a consequence of deferring the introduction of IFRS 9, we will provide additional disclosures until we apply the standard for the first time in order to compare our presentation of investments and other financial instruments with those of companies that already apply IFRS 9.

The following additional disclosure, required by IFRS 4 for eligible insurers, presents the fair value and the amount of change in the fair value of the Company's financial assets as of and for the years ended December 31, 2021 and December 31, 2020, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are SPPI on the principal amount outstanding and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("Non-SPPI").

AS AT DEC. 31, 2021 US$ MILLIONS	SPPI		Non-SPPI	
	Fair value	**Change in fair value**	**Fair value**	**Change in fair value**
Financial assets				
Debt securities	$ 1,884	$ 2	$ 2,023	$ 2
Equities	—	—	397	—
Loans and receivables	639	—	—	—
Total	**$ 2,523**	**$ 2**	**$ 2,420**	**$ 2**

AS AT DEC. 31, 2020 US$ MILLIONS	SPPI		Non-SPPI	
	Fair value	**Change in fair value**	**Fair value**	**Change in fair value**
Financial assets				
Debt securities	$ 43	$ 1	$ 1,125	$ —
Equities	—	—	3	—
Loans and receivables	21	—	—	—
Total	**$ 64**	**$ 1**	**$ 1,128**	**$ —**

The following additional disclosure, required by IFRS 4 for eligible insurers, presents the credit risk ratings of SPPI financial assets:

AS AT DEC. 31, 2021 US$ MILLIONS	Credit risk	Carrying value (Fair value)	% of fair value
Debt securities			
AAA	Low	$ 113	5 %
AA	Low	19	1 %
A	Low	1,203	48 %
BBB	Low	100	4 %
BB	Other	104	4 %
B	Other	32	1 %
Unrated	Other	313	12 %
Loans and receivables			
A	Low	$ 60	2 %
BBB	Low	36	1 %
BB	Other	152	6 %
Unrated	Other	391	16 %
Total		**$ 2,523**	**100 %**

AS AT DEC. 31, 2020 US$ MILLIONS	Credit risk	Carrying value (Fair value)	% of fair value
Debt securities			
AAA	Low	$ 22	34 %
AA	Low	7	11 %
A	Low	10	16 %
BBB	Low	4	6 %
Loans and receivables			
Unrated	Other	$ 21	33 %
Total		**$ 64**	**100 %**

NOTE 4. ACCOUNTS RECEIVABLE AND OTHER

The Company's accounts receivable and other consist of the following:

AS AT DEC. 31 US$ MILLIONS	**2021**	2020
Reinsurance receivable	**$ 12**	$ 2
Accrued investment income	**21**	7
Due from related party	**10**	—
Other assets	**4**	4
Total accounts receivable and other	**$ 47**	$ 13

In 2021 and 2020, reinsurance receivable relates to amounts recoverable from third-party reinsurers and cedants. All amounts are expected to be settled within a year.

NOTE 5. PROPERTY AND EQUIPMENT

The Company's property and equipment consists primarily of a ROU asset. As at December 31, 2021 the property and equipment balance was $2 million (2020 - $2 million). The additions, amortization and disposals to property and equipment during 2021 were $Nil (2020 - $1 million, $Nil, $Nil).

NOTE 6. INTANGIBLE ASSETS

In 2021, the Company recognized $3 million of computer software as intangible assets, which are not yet available for use as at December 31, 2021. Intangible assets not yet available for use are assessed for impairment irrespective of whether there is any indication of impairment. For the year ended December 31, 2021, the Company did not incur an impairment expense (2020 – $Nil).

NOTE 7. DEFERRED ACQUISITION COSTS

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

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020
Deferred acquisition costs, beginning of year	**$ —**	$ —
Costs capitalized under reinsurance contracts	**775**	—
Amortization and other	**1**	—
Deferred acquisition costs, end of year	**$ 776**	**$ —**

NOTE 8. EQUITY ACCOUNTED INVESTMENTS

The following table presents the change in the Company's investments in associates during the year:

FOR THE YEAR ENDED DEC. 31 2021 US$ MILLIONS	
Balance, beginning of year	$ —
Additions	294
Share of net income	8
Share of comprehensive income	44
Dividends received	(2)
Balance, end of year	**$ 344**

The addition of $294 million during the year relates to the Company's equity accounted investment in AEL Holdings. 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.

The Company originally acquired a 9.5% interest in AEL Holdings at the time of Spin-Off and the investment was treated as a financial asset. During the third quarter, as a result of a firm commitment to enter into the reinsurance agreement with American Equity Investment Life Insurance Company (“AEILIC”), a subsidiary of AEL Holdings, management concluded that they had significant influence over AEL Holdings, and as such, derecognized the financial asset and recorded an equity accounted investment. As at December 31, 2021 the Company's ownership interest was 9.8% as a result of common share repurchases and cancellations completed by AEL Holdings during the period.

The Company accounts for AEL Holdings using the equity method of accounting by recognizing its share of income and OCI from its 9.8% ownership interest in the equity accounted investment one quarter in arrears, which is the most up to date information available to the Company. AEL Holdings does not present a classified balance sheet. The summarized financial information below represents amounts in AEL Holdings' financial statements, adjusted by the Company for equity accounting purposes:

AS AT AND FOR THE SIX MONTHS ENDED SEP. 30, 2021 US$ MILLIONS		
Total assets	$	78,318
Total liabilities		71,943
Accumulated other comprehensive income		1,957
Other stockholders' equity		4,418
Total revenues		1,618
Total expenses		(1,491)
Income tax expense		(29)
Preferred stock dividends		(22)
Net income		76
Other comprehensive income		452

AEL Holding"s shares are traded on the New York Stock Exchange. The fair value of the Company's shares in AEL Holdings is $354 million based on the quoted price as at December 31, 2021. The Company received $2 million of dividends from AEL Holdings during the year.

NOTE 9. ACCOUNTS PAYABLE AND OTHER

The Company's accounts payable and other consist of the following:

AS AT DEC. 31 US$ MILLIONS	**2021**	2020
Accounts payable and accrued liabilities	**$ 57**	$ 4
Derivative liabilities	**1**	—
Other	**7**	2
Total accounts payable and other	**$ 65**	$ 6

NOTE 10. INSURANCE RESERVES

The Company's insurance reserves are as follows:

AS AT DEC. 31 US$ MILLIONS	**2021**	2020
Gross	**$ 8,497**	$ 1,339
Reinsurance assets	**(169)**	(190)
Total insurance reserves	**$ 8,328**	$ 1,149

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

a. Nature and composition

Reinsurance

NER SPC's insurance reserves represent Fixed Indexed Annuity ("FIA") contracts that provide contract owners the possibility of earning returns linked to the performance of a specified market index, predominantly the S&P 500 Index, while providing principal protection. The contracts include a provision for a minimum guaranteed surrender value in accordance with applicable law. The products allow policyholders to allocate funds periodically among several different crediting strategies, including index-based strategies and a traditional fixed rate strategy. High surrender charges apply for early withdrawal.

The policyholder account value of the FIA is equal to the sum of deposit paid, premium bonus, and index credits based in the relevant market index (subject to cap, spread and/or participation rate which can typically be reset) less any fees for riders and any withdrawals taken to-date.

NER Ltd.'s insurance reserves represent multi-year guaranteed annuity contracts that provide owners a guaranteed rate of return. Premiums and credited interest are protected from market volatility, which provides long-term financial security and predictability for policyholders.

PRT

The insurance reserves represent contracts that provide immediate annuities for current pensioners and deferred annuities for members who have not reached pensionable age. The Company's insurance contracts are a mixture of group annuity "buy-in" policies, where the policyholder is the pension fund, and group annuity "buy-out" policies, where the policyholder is the administrator. The Company provides group annuity policies across Canada.

b. Valuation assumptions

Reinsurance

NER SPC's insurance reserves are based on actuarial assumptions related to the underlying policies' terms, lives of the policies, duration of the contract, yield on investments supporting the liabilities, level of expenses. Significant assumptions also include policyholder behavior assumptions, such as surrender, lapse, withdrawal rates. NER SPC uses a combination of actual and industry experience when setting and updating policyholder behavior assumptions. Assumptions are at best estimate with margins for adverse deviation. These margins are necessary to provide for possibilities of misestimation and future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Best-estimate assumptions and margins are reviewed periodically for continued appropriateness.

NER Ltd.'s insurance reserves have no actuarial assumptions as the reserves are carried at the accumulated contract holder values without reduction for potential surrender or withdrawal charges.

PRT

The insurance reserves represent the present value of the future annuity payments and expenses measured in accordance with the CALM described in Note 2 Summary of significant accounting policies, section (r) Insurance Reserves. It incorporates best-estimate assumptions for longevity, future investment yields, administration costs, margins for adverse deviation, and inflation. These margins are necessary to provide for possibilities of misestimation and future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Best-estimate assumptions and margins are reviewed periodically for continued appropriateness.

The principal valuation assumptions and the methods for arriving at these valuation assumptions are outlined below.

Longevity

Mortality assumptions are derived by adjusting a base mortality table and applying mortality multipliers that vary by plan based on factors including, but not limited to, gender, age, job description, latest known salary, geography, and pension amount. These characteristics are further analyzed using a supporting database of over 500,000 Canadian pensioner lives. The data comprises of a diverse range of survival patterns reflective of the recent past. Models generated from this data are mapped into curves which can then be applied for analysis on an annuitant basis. Further, the Company monitors views and research published by governments, industry and academia on the factors influencing mortality changes and maintains longevity assumptions that are consistent with emerging trends.

Mortality improvement assumptions follow the prescribed mortality improvement scales issued by the CIA.

Investment returns

Projected cash flows from the current assets and liabilities are used in CALM to determine insurance reserves. Assumptions are made regarding rates of returns on supporting assets. Projected cash flows from assets used in the actuarial calculations are reduced to provide for potential asset default losses. The calculation for future credit losses on assets is based on the credit quality underlying the asset portfolio.

Other assumptions

The internal costs of maintaining the insurance reserves, the fees paid to third-party administrators engaged to manage payments under the in-force policies, and fees due to reinsurers and investment management expenses, as well as inflation are factored into the calculation of the insurance reserves where applicable.

c. Net change in insurance reserves

The following table summarizes the movement between insurance reserves for the years ended December 31, 2021 and 2020 by its major components:

FOR THE YEAR ENDED DEC. 31 2021 US$ MILLIONS	Gross reserve	Reinsurance assets	Net
Beginning of year	$ 1,339	$ 190	**$ 1,149**
Changes during the year			
New business	7,180	—	**7,180**
Normal changes	(310)	(20)	**(290)**
Management actions and changes in assumptions	282	(2)	**284**
	7,152	(22)	**7,174**
Impact of foreign exchange[1]	6	1	**5**
Balance at end of year	**$ 8,497**	**$ 169**	**$ 8,328**

FOR THE YEAR ENDED DEC. 31 2020 US$ MILLIONS	Gross reserve	Reinsurance assets	Net
Beginning of year	$ 856	$ 197	**$ 659**
Changes during the year			
New business	414	—	**414**
Normal changes	67	(9)	**76**
Management actions and changes in assumptions	(24)	(2)	**(22)**
	457	(11)	**468**
Impact of foreign exchange[1]	26	4	**22**
Balance at end of year	**$ 1,339**	**$ 190**	**$ 1,149**

1. Foreign currency translation reported as a separate component of other comprehensive income. See Note 2(ac) Foreign currencies

Under fair value accounting adopted by RPT business, movement in the fair value of the supporting assets is a major factor in the movement of insurance reserves. 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.

In 2021, the gross reserves consist of $2.2 billion from BAC, $1.6 billion from NER Ltd. and $4.7 billion from NER SPC. The main contributors to the increase in net insurance reserves were the impact of new business of $$7.2 billion partially offset by reinsurance transactions of $22 million. Management actions and changes in assumptions increased reserves by $284 million. The increase was primarily due to revisions to expense assumptions to reflect the most recent experience analysis, offset by revisions to interest rate risk assumptions and the execution of longevity swaps.

On October 8, 2021, NER SPC closed a retrocession agreement with an effective date of July 1, 2021 with an insurance company which was the Company's associate. At the effective date, NER SPC assumed embedded derivative insurance reserves in the amount of $193 million which subsequently increased to $204 million at December 31, 2021.

In 2020, the entire gross reserve related to BAC. The main contributors to the increase in net insurance contract liabilities were the impact of new business of $414 million and the impact of normal changes of $76 million. Management actions and changes in assumptions lowered the reserves by $22 million. The decrease was primarily due to modelling enhancements related to the reinvestment assumption and asset cash flows.

The Company’s risks arising from insurance contract liabilities are principally interest rate and longevity. The policies and procedures to manage these risks and sensitivity analysis are described in Note 12 Risk Management.

d. Reinsurance ceded results

Any gains or losses on reinsurance transactions are recognized in income on inception of the transactions and are included in change in insurance contract liabilities ceded in the Combined Consolidated Statements of Operations. In December 2020, BAC entered into two longevity reinsurance transactions which resulted in after-tax losses on inception of approximately $1 million. In December 2021, BAC entered into another longevity reinsurance transaction which resulted in an after-tax loss on inception of approximately $1 million.

As at December 31, 2021, BAC’s total expected fixed payments and actual costs of benefit expenses to be reimbursed under longevity reinsurance transactions used in valuing reinsurance assets were $1.1 billion and $1.1 billion (2020 - $493 million and $483 million) respectively. The difference between fixed payments and actual costs on past service is recognized in the same period as the related claim is incurred within benefits ceded in the Combined Consolidated Statements of Operations.

Reinsurance fees in respect of longevity reinsurance arrangements are recognized when due to reinsurers and are included in premiums ceded in the Combined Consolidated Statements of Operations:

AS AT DEC. 31 US$ MILLIONS	**2021**	2020
Reinsurance fees in respect of longevity reinsurance arrangements	**$ 1**	$ —

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 December 31, 2021 and December 31, 2020 comprises the following:

	December 31, 2021		**December 31, 2020**	
	Number of shares	Value	Number of shares	Value
Issued				
Class A exchangeable shares	10,877,989	$ 535	—	$ —
Class B shares	24,000	1	—	—
Class C shares	23,544,548	963	—	—
Share capital		**$ 1,499**		**$ —**

NOTE 12. RISK MANAGEMENT

The management of risk is central to the success of the business. The Company seeks to create and protect enterprise value by enabling risk-informed decision making and by balancing risk and return in business processes.

The Board has overall responsibility for the management of risk and is supported through formal committees of the Board including the Risk Committee.

The Company manages risk by applying the principles and guidelines outlined in the enterprise risk management framework presented to the BAM Re Board (the "ERM Framework"). The ERM Framework establishes the overall risk management framework that includes the following:

- Risk inventory – identifies and defines the risks arising from the Company's business strategy and operations using a consistent language that enables an enterprise-wide approach to measurement, reporting and disclosure of risk;

- Risk appetite – determines the nature and amount of risk the Company is prepared to take, the adherence to which is measured and reported through an extensive set of Board-approved risk appetite tolerances;

- Risk governance – establishes clear ownership and accountability for risk management oversight and a risk-aware culture across the Company; and

- Risk management process – codifies a consistent approach to the identification, assessment, measurement, control, monitoring and reporting of risks faced by the Company.

As part of the risk governance framework, the Company operates a three lines of defense model. Under this model, the accountabilities of each line of defense are:

- First line – business management: day to day responsibility for managing and identifying risks, ensuring activities are within risk appetite and established policies, and designing and implementing effective internal controls;

- Second line – risk management function: establish enterprise governance, risk and control strategies and policies; provide oversight and independent effective challenge to the first line, as well as training, tools and advice; and

- Third line – internal audit: independently verify the adequacy and effectiveness of the first and second lines of defense, and that the enterprise risk management framework is operating effectively.

An Own Risk and Solvency Assessment ("ORSA") is undertaken by BAC at least annually. The ORSA involves a comprehensive assessment of the Company's risks, capital needs and solvency position, as well as solvency forecasting across a range of scenarios including plausible stresses that could jeopardize the Company's business plans. BAC also evaluates its exposure to sustained adverse scenarios through other stress testing techniques such as the Financial Condition Testing ("FCT").

A Commercial Insurers' Solvency Self-Assessment ("CISSA") is undertaken by NER Ltd. at least annually. The primary purpose of the CISSA exercise is to allow NER Ltd. to incorporate an analysis of the internal capital needs into the risk management frameworks. It also ensures that both capital needs and available capital resources are considered in the development of business strategies and decision-making over the near and long term, including factoring in the impact of catastrophic shocks. The CISSA framework provides a perspective of the capital resources necessary to achieve NER Ltd.'s business strategies and remain solvent given their risk profile, as well as insight into the risk management and governance procedures surrounding these processes.

The Company has established recurring routines for monitoring and reporting on risks. Risk management reports are provided to management on a monthly basis and to the Board and Risk Committee on a quarterly basis. The reports include risk exposures measured against Board-approved risk appetite tolerances, and where relevant, management actions are identified to ensure risk mitigation and controls are effective.

The principal risk factors that affect the Company's operations and financial condition include financial risks such as market risk, credit risk and liquidity risk, insurance risk and other risks such as regulatory risk and operational risk.

The following sections describe the primary financial risks and associated risk management strategies in place that affect the Company's operations and financial condition.

a. Market risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates, such as changes in equity prices, or credit spreads.

The Company manages market risk from foreign currency assets and liabilities and the impact of changes in currency exchange rates and interest rates by funding assets with financial liabilities in the same currency and with similar interest rate characteristics, and by holding financial contracts such as interest rate and foreign exchange derivatives to minimize residual exposures.

Financial instruments held by the Company that are subject to market risk include other financial assets, borrowings and derivative instruments.

1. *Interest rate risk*

The Company manages interest rate risk through an asset liability management ("ALM") framework whereby the effective and key rate durations of the investment portfolio are closely matched to that of the insurance contract liabilities. Within the context of the ALM framework, the Company uses derivatives including interest rate swaps and bond futures to reduce market risk. For the annuity business, where the timing and amount of the benefit payment obligations can be readily determined, the matching of asset and liability cash flows is effectively controlled through this comprehensive duration management process.

The Investment Policy outlines the duration constraints that have been approved by the Board. In operationalizing these constraints, considerably more confining duration-based targets have been established that are closely monitored and reported to management in monthly business updating meeting and to the Board and Risk Committees on a quarterly basis.

The following table shows the sensitivity to changes in interest rates:

	2021		2020	
AS AT DEC. 31 US$ MILLIONS	**50 bps increase**	**50 bps decrease**	50 bps increase	50 bps decrease
Movement in liabilities	**$ 103**	**$ (105)**	$ 63	$ (63)
Movement in assets	**(248)**	**329**	(62)	62
Tax effect	**(4)**	**4**	—	—
Impact on comprehensive income	**$ (149)**	**$ 228**	$ 1	$ (1)

The Investment Policy is reviewed at least annually and approved by the Board.

2. *Foreign exchange risk*

Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the USD.

The Company manages foreign exchange risk using foreign exchange forwards. The Investment Policy sets out the foreign currency exposure limits and types of derivatives permitted for hedging purposes.

The Company holds financial instruments with net unmatched exposures in several currencies, changes in the translated value of which are recorded in net income. As at December 31, 2021, a 1% fluctuation in USD against non-USD currencies would have an impact of approximately $1 million on net income and $1 million on OCI (2020 – $Nil million on net income and $Nil on OCI).

b. Credit risk

Credit risk is the risk of loss from amounts owed by counterparties and arises any time funds are extended, committed, owed or invested through actual or implied contractual arrangements including reinsurance. The Company is primarily exposed to credit risk through its investments in debt securities and reinsurance funds withheld.

The Company manages exposure to credit risk by establishing concentration limits by counterparty, credit rating and asset class. To further minimize credit risk, the financial condition of the counterparties is monitored on a regular basis. These requirements are outlined in the Investment Policy.

1. Asset quality

The following table summarizes the external credit ratings for cash and cash equivalents and investments:

AS AT DEC. 31, US$ MILLIONS	2021		2020	
Cash and cash equivalents	**$ 393**	**4 %**	$ 35	3 %
Bonds and other debt securities				
AAA	512	5 %	409	33 %
AA	55	1 %	11	1 %
A	1,516	15 %	121	10 %
BBB	1,306	13 %	617	50 %
BB	151	1 %	10	1 %
B	54	— %	1	— %
Unrated	170	2 %	—	— %
	3,764	**37 %**	1,169	95 %
Preferred shares				
P2	7	— %	3	— %
BB	1	— %	—	— %
Unrated	10	— %	—	— %
	18	**— %**	3	— %
Common shares				
A+	243	2 %	—	— %
Unrated	32	**— %**	—	— %
	275	**2 %**	—	— %
Other equity				
Unrated	**247**	**2 %**	—	— %
Private loans				
A	60	1 %	—	— %
BBB	55	1 %	—	— %
BB	151	2 %	—	— %
Unrated	251	3 %	—	— %
	517	**7 %**	—	— %
Mortgages				
Unrated	122	1 %	21	2 %
	122	**1 %**	21	2 %
Reinsurance Funds Withheld				
AAA	819	8 %	—	— %
AA	228	2 %	—	— %
A	891	9 %	—	— %
BBB	2,484	26 %	—	— %
BB	105	1 %	—	— %
B	30	— %	—	— %
Unrated	93	1 %	—	— %
	4,650	**47 %**	—	— %
Total cash and cash equivalents and investments	**$ 9,986**	**100 %**	$ 1,229	100 %

The Company's overall target credit quality for the portfolio is a credit rating of BBB+. As at December 31, 2021 and 2020, the Company met this requirement.

2. *Concentration*

Concentrations of credit risk arise from exposures to a single issuer or a group of related issuers or groups of issuers that have similar risk characteristics.

Bonds

The following table provides the fair value of investments by groups of issuers of bonds:

	2021		**2020**	
Government bond holdings	$ 1,664	47 %	$ 401	34 %
Corporate and other bond holdings	1,892	53 %	768	66 %
Total bond holdings	**$ 3,556**	**100 %**	$ 1,169	100 %

The following table discloses the Company's top 5 holdings of issuers (excluding governments), as well as exposure to the largest single issuer of corporate bonds.

	2021	2020
Exposure to the top 5 largest issuers of corporate bonds	**$ 161**	$ 90
% of total cash and cash equivalents and investments	**3 %**	7 %
Exposure to the largest single issuer of corporate bonds	**32**	18
% of total cash and cash equivalents and investments	**1 %**	2 %

3. *Derivative counterparties*

Credit risk also arises in respect of derivative contracts to the extent that there is the potential for the counterparties to default on their obligations. To manage this risk, derivative transactions are limited to an approved list of counterparties and in some cases are fully collateralized with highly rated instruments. The derivative counterparty risk as of December 31, 2021 and 2020 was $146 million and $7 million, respectively. As at December 31, 2021, these counterparties have a credit rating of A or higher (2020 - A+ or higher).

4. *Reinsurance counterparties*

BAC has reinsurance contracts with third-party registered reinsurers and one third-party unregistered reinsurer with a total exposure of $169 million at December 31, 2021 (2020 – $190 million). To manage counterparty risk, reinsurance transactions are limited to an approved list of reinsurers with concentration limits to any single reinsurer.

Under the reinsurance contracts with third-party unregistered reinsurers, highly rated assets are required to be pledged to the Company to fully support the ceded reserves. The Company maintains a valid and enforceable security interest that has priority over any other security interest in the collateral. In the event of default by the reinsurer, the Company has the right to liquidate or take legal possession of these assets, in a timely manner.

As at December 31, 2021, the credit ratings of the reinsurers are A+ (2020 - A+).

NER Ltd. and NER SPC have reinsurance contracts with third-party cedants with a total exposure of $6,253 million at December 31, 2021 (2020 – $Nil).

As at December 31, 2021, the credit ratings of the third-party cedants are A- or higher.

5. *Impaired Assets*

The Company reviews all reinsurance assets at each reporting date and determined that there was no evidence of impairment as at December 31, 2021 and 2020.

c. Liquidity risk

Liquidity risk is the risk that the Company will not be able to raise the necessary funds, at the appropriate time, to meets its financial liabilities.

Cash outflows primarily consist of benefit payments to policyholders and to a lesser extent, operating expenses and settlement of derivative contracts.

The following table sets out the expected maturity profile of the Company's financial liabilities:

AS AT DEC.31, 2021 US$ MILLIONS	Within 1 year	1-3 years	4-5 years	Over 5 years	Total
Accounts payable and other	$ 65	$ —	$ —	$ —	**$ 65**
Due to related party	467	—	—	—	**467**
Reinsurance payable	21	14	15	25	**75**
Corporate borrowings	656	37	—	—	**693**
Insurance reserves	368	769	792	6,568	**8,497**
Deferred revenue	4	7	7	64	**82**
Liabilities of structured entities	—	—	—	167	**167**
Funds withheld liabilities	12	—	—	—	**12**
Total	**$ 1,593**	**$ 827**	**$ 814**	**$ 6,824**	**$ 10,058**

AS AT DEC.31, 2020 US$ MILLIONS	Within 1 year	1-3 years	4-5 years	Over 5 years	Total
Accounts payable and other	$ 5	$ 1	$ —	$ —	**$ 6**
Insurance reserves	21	85	85	1,148	**1,339**
Funds withheld liabilities	12	—	—	—	**12**
Total	**$ 38**	**$ 86**	**$ 85**	**$ 1,148**	**$ 1,357**

To manage liquidity risk, the Company as part of its ALM framework, purchases assets to support the liabilities under its insurance contracts. The effective and key rate duration of these investments are constructed to closely match those of the annuity policy liabilities. The Company has established liquidity risk tolerances and operational targets that are closely monitored. Stress testing is conducted to ensure that there are sufficient liquid assets at all times to meet obligations.

In addition, the company has a credit agreement with Brookfield Asset Management as lender, providing for a three-year $200 million revolving credit facility, and an agreement for a $150 million third-party revolving credit facility. As at December 31, 2021 there was $nil drawn on the Brookfield Credit Agreement (December 31, 2020 – $Nil), and $37 million drawn on the third-party revolving credit facility (December 31, 2020 – $Nil).

In addition, a subsidiary of the the Company has access to a CAD$150 million repurchase agreement (2020 - CAD$150 million). As at December 31, 2021, there were no amounts outstanding under the repurchase agreement (2020 – $Nil).

d. Insurance risk

PRT

Insurance risk is the risk that actual experience related to benefit payments and expenses does not emerge as expected. The Company is primarily exposed to longevity risk.

Longevity risk is the risk that mortality experience occurs at lower rates than that assumed at the time of pricing which exposes the Company to benefit payments that will be paid for longer periods than anticipated.

Longevity assumptions are derived by adjusting a base mortality table and applying mortality multipliers that vary by plan based on factors established at the time of pricing. These factors take into consideration the characteristics of the annuitants including but not limited to gender, age, job description, latest known salary, geography, and pension amount. These characteristics are further analyzed using a supporting database of over 500,000 Canadian pensioner lives. The data is comprised of a diverse range of survival patterns reflective of the recent past. Models generated from this data are mapped into curves which can then be applied for analysis on an annuitant basis. Further, the Company monitors views and research published by governments, industry and academia on the factors influencing mortality changes and maintains longevity assumptions that are consistent with emerging trends.

These inputs and analytics support the Company's assessment of longevity risk.

To reduce longevity risk within our PRT business, the Company enters into longevity reinsurance transactions with third party reinsurers. Under these contracts, the Company commits to pay the reinsurers a schedule of fixed payments relating to a proportion of defined blocks of policyholder benefits. In return, the reinsurers reimburse the actual cost of their proportion of benefit expenses on those blocks to the Company. As at December 31, 2021, the Company has entered into longevity reinsurance contracts and has reinsured approximately 71% of its longevity risk (2020 – 54%).

The following table shows the sensitivity to changes in longevity risk. These sensitivities reflect the impact of any applicable ceded reinsurance arrangements.

AS AT DEC. 31, 2021 US$ MILLIONS	Mortality Rate		Mortality Improvement	
	5% Increase	5% Decrease	50% Increase	50% Decrease
Impact on comprehensive income	**$ 10**	**$ (9)**	**$ (12)**	**$ 13**

AS AT DEC. 31, 2020 US$ MILLIONS	Mortality Rate		Mortality Improvement	
	5% Increase	5% Decrease	50% Increase	50% Decrease
Impact on comprehensive income	**$ 6**	**$ (6)**	**$ (8)**	**$ 8**

Reinsurance

NER SPC reinsures fixed indexed annuity products only. Generally, the assumptions that are the most sensitive for fixed indexed annuity products are changes to investment yields, utilization rates, partial withdrawal rates, lapse rates and mortality. However, our reserves are less sensitive to changes in assumption at this point in time considering the mechanics of our reserving process.

At treaty inception, projected base contract cash flows are bifurcated into two parts: a host liability that reserves for contractually guaranteed payments and an embedded derivative that represents the value of payments in excess of guarantees; for the current treaty, the host liability makes up the vast majority of the reserve liability. The host liability after inception is calculated using an effective yield approach based on a host accrual rate that equates the present value of actual and projected future guaranteed benefit payments to the initial host liability. The host accrual rate is revised as experience emerges, actual cash flows replace projected, and best estimate assumptions about the future are updated. Given this financial year end is only six months following treaty inception, the impact of rolling forward at a different accrual rate recalibrated from changing assumptions is minimized by the short period.

Investment yield risk is a shift in market interest rates associated with investment fixed income instruments. The embedded derivative, measured at fair value, is most sensitive to investment yields as this directly affects its discount rate.

The following table shows the impact on the overall liability to changes in mortality (as described in PRT sensitivity) and changes to investment yields:

	Mortality Rate		Yield	
AS AT DEC. 31, 2021 US$ MILLIONS	10% Increase	10% Decrease	50 bps Increase	50 bps Decrease
Impact on comprehensive income	**$ (1)**	**$ 1**	**$ (11)**	**$ 12**

e. Operational risk

Operational risk is the potential for loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Company's internal control processes are supported by the maintenance of a risk register and independent internal audit review. The risk of fraud is managed through a number of processes including background checks on staff on hire, annual code of conduct confirmations, anti-bribery training and segregation of duties.

The Company has significant outsourcing arrangements in respect of pension administration and other functions. These arrangements are subject to agreements with formal service levels, operate within agreed authority limits and are subject to regular review by senior management. Material outsourcing arrangements are approved and monitored by the Board.

Disaster recovery and business continuity plans have also been established to manage the Company's ability to operate under adverse conditions.

f. Regulatory risk

Regulatory risk stems principally from the risk of changes to the regulatory environment in which the Company operates. To manage this risk, the Company seeks to a have a regular dialogue with regulators to ensure compliance. Furthermore, senior management participates in industry groups and professional bodies to stay apprised of regulatory changes.

NOTE 13. CORPORATE BORROWINGS

The Company and its subsidiaries have bilateral revolving credit facilities backed by global banks. The total available amount on the credit facilities is $150 million. The credit facilities are available in U.S. and Canadian dollars and advances under the credit facilities bear interest at the specified LIBOR, CDOR, or bankers' acceptance rate plus a spread. The credit facilities have a maturity date of June 28, 2024. As at December 31, 2021, $37 million was drawn on the bilateral credit facilities.

In addition, the Company has a 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 December 31, 2021, $656 million was drawn.

The facilities require the Company to maintain a minimum net worth covenant. At at December 31, 2021, the Company was in compliance with its financial covenants.

The Company also has a revolving credit facility with Brookfield Asset Management, as described in Note 1(b)(v) that as at December 31, 2021 permitted borrowings of up to $200 million. As at December 31, 2021, there were no amounts drawn on the facility.

NOTE 14. OPERATING EXPENSES

Operating expenses include the following:

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Salaries and benefits expense	**$ 10**	$ 3	$ 3
Professional services	**18**	2	2
Software	**2**	1	1
Sales and capital taxes	**1**	—	—
Licenses and fees	**1**	—	—
Other	**3**	—	—
Total operating expenses	**$ 35**	$ 6	$ 6

NOTE 15. INCOME TAXES

Income taxes are recognized for the amount of taxes payable by the Company's corporate subsidiaries and for the impact of deferred income tax assets and liabilities related to such subsidiaries.

The Company's income tax expense is as follows:

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Current tax:			
Current tax on profits for the year	**$ —**	$ 1	$ —
Adjustments in respect of prior years	**—**	—	$ —
Total current tax expenses	**—**	1	—
Deferred tax:			
Origination and reversal of temporary differences	**2**	—	—
Total deferred tax expenses	**2**	—	—
Total income tax expense	**$ 2**	$ 1	**$ —**

The below reconciliation has been prepared using a statutory income tax rate for jurisdictions where the Company's subsidiaries operate.

The Company's income tax expense is reconciled as follows:

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Net (loss) income before income tax	**$ (42)**	$ 2	$ 6
Income tax at statutory tax rate	**(11)**	1	2
Tax effect of:			
International operations subject to different tax rates	**13**	—	—
Derecognition (Recognition) of deferred tax assets	**—**	—	(2)
Total income tax expense	**$ 2**	$ 1	$ —

The Company's effective tax rate is different from the Company's statutory income tax rate due to the following differences set out below:

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Statutory income tax rate	**26.5%**	26.5%	26.5%
Increase (reduction) in rate resulting from:			
International operations subject to different tax rates	**(30.9)%**	15.9 %	— %
Derecognition (recognition) of deferred tax assets	**— %**	— %	(24.7)%
Other	**— %**	(13.0)%	0.7 %
Effective income tax rate	**(4.4)%**	29.4 %	2.5 %

The gross movement on the deferred tax asset is as follows:

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020
Deferred tax asset, beginning of year	$ —	$ —
Tax booked to income statement	**(2)**	—
Tax booked to balance sheet	**2**	—
Tax booked to equity	**20**	—
Deferred tax assets, end of year	**$ 20**	**$ —**

AS AT DEC. 31 US$ MILLIONS	**2021**	2020
Non-capital loss carryforwards	**$ 18**	$ —
Tax credit carryforwards	**2**	—
Deferred tax asset	**$ 20**	**$ —**

Deferred tax asset recognized relates to non-temporary differences relating to non-capital loss carryforwards and tax credit carryforwards. The Company evaluates the deferred tax asset based on, amongst other factors, historical operating results, expectation of future profitability, and the duration of the applicable statutory carryforward periods for tax attributes. Based on the evaluation of the deferred tax assets as of December 31, 2021, the Company determined that the deferred tax assets would be realized within the applicable statutory carryforward period.

NOTE 16. EARNINGS PER SHARE

Basic and diluted earnings per class C share for the year ended December 31, 2021 have been calculated using the weighted average number of class C shares outstanding of 19,903,823, and represent the class C shares outstanding for the period of June 28, 2021 to December 31, 2021.

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

FOR THE YEAR ENDED DEC. 31 2021 US$ MILLIONS	2021
Net loss for the year	$ (44)
Attributable to:	
Brookfield Asset Management Inc.	5
Class A exchangeable and Class B shareholders	3
Class C shareholders	(52)
Earnings per share per class C share - basic and diluted	**$ (2.58)**

NOTE 17. RELATED PARTY TRANSACTIONS

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

a) Spin-off related transactions

On April 13, 2021 Brookfield US Holdings Inc. ("BUSHI"), a wholly-owned-subsidiary of Brookfield Asset Management, loaned $10 million to BAM Re Holdings as a non-interest bearing USD denominated demand note. The amount was fully repaid upon completion of the spin-off.

On June 18, 2021, Burgundy Acquisitions I Ltd. (“Burgundy”), a wholly-owned subsidiary of Brookfield Asset Management, sold its 9.1 million common shares of AEL Holdings to NER SPC for fair market value of $291 million.

On June 18, 2021, Brookfield Annuity Holdings Inc. (“BAH”) sold its ordinary shares of NER SPC to BAM Re Holdings for fair market value consideration of $5 million. The transaction represents a common control transaction and is recorded at NER SPC’s historical carrying value, net of amounts due to related parties, of $5 million. Subsequently, BAH declared and executed a $5 million return of capital on its common shares to Brookfield Asset Management.

On June 18, 2021, BAM Re loaned $25 million to Brookfield International Holdings Inc. (“BIHI”), a wholly-owned subsidiary of Brookfield Asset Management, in exchange for the issuance by BIHI of a demand note in the amount of $25 million.

On June 18, 2021, Brookfield Asset Management advanced cash of $30 million via a non-interest bearing, USD denominated promissory note to the Company. This amount was fully repaid with proceeds of the Spin-off.

On June 24, 2021, Brookfield Asset Management transferred $151 million to the Company in exchange for 3,582,510 BAM Re Class C Non-Voting Shares.

On June 24, 2021, the Company acquired all of the issued and outstanding shares of BAH from its sole shareholder, Brookfield Asset Management, for total consideration of $111 million. The transaction represents a common control transaction and is recorded at BAH’s historical carrying value, net of amounts due to related parties, of $110 million.

On June 24, 2021, Brookfield Asset Management sold its limited partnership and general partnership interest in Brookfield Reinsurance Investments L.P. ("BRILP") to BAM Re Holdings for cash consideration of $40 million. The transaction represents a common control transaction and is recorded at BRILP's historical carrying value, net of amounts due to related parties, of $43 million.

b) BAM Re agreements

As described in Note 1(b)(iv), Brookfield Asset Management provided to the Company an equity commitment in the amount of $2 billion to fund future growth, which the Company may draw on from time to time. As of December 31, 2021, there was no amount drawn under the equity commitment.

As described in Note 1(b)(v), as of December 31, 2021, there were no amounts drawn on the credit facilities under the Brookfield Credit Agreement.

As described in Note 1(b)(vi), the Company entered into the Support Agreement on June 28, 2021. The base fee for the year ended December 31, 2021 was $Nil .

As described in Note 1(b)(vii), the Company entered into the Rights Agreement on June 28, 2021. The base fee for the year ended December 31, 2021 was $Nil .

As described in Note 1(b)(viii), the Company entered into the Administration Agreement on June 28, 2021. The base fee for the year ended December 31, 2021 was $0.4 million.

As described in Note 1(b)(ix), the Company entered into an Investment Management Agreement with Brookfield Asset Management on June 28, 2021. The base investment management fee for the year ended December 31, 2021 was $4.1 million.

As described in Note 1(b)(x), the Company entered into the Brookfield Licensing Agreement on June 28, 2021. The base fee for the year ended December 31, 2021 was $Nil.

c) 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 Asset Management. 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 year ended December 31, 2021 totaled $0.4 million (December 31, 2020 - $0.2 million). As at December 31, 2021, lease liabilities relating to this arrangement were $1 million.

BAC entered into outsourcing arrangements with Brookfield Asset Management related to information technology, investment fund management, building maintenance, and internal audit services. The amount paid to Brookfield Asset Management for these services for the year ended December 31, 2021 totaled $0.3 million (December 31, 2020 – $0.4 million). Amounts due to Brookfield Asset Management related to outsourcing arrangements at December 31, 2021 totaled $0.5 million (2020 – $Nil).

During the year, BAC issued group annuity policies of $5 million with certain of Brookfield Asset Management's subsidiaries and collected all the premiums. Premiums, gross benefits and insurance contract liabilities with related parties are accounted for in the same manner as those with unrelated parties in the financial statements.

On March 29, 2021, the Company's parent, BAM, transferred $79 million of deductions related to Part VI.1 tax at a cost of $0.99 per $1.00 of tax savings. The total value of tax deductions acquired was $20 million dollars. In exchange, the Company paid cash of $20 million.

During the year, subsidiaries of the Company purchased investments of $0.9 billion from Brookfield Asset Management and its subsidiaries, from which net investment income of $5 million was recognized in the Combined Consolidated Statements of Operations. Investment transactions with related parties are accounted for in the same manner as those with unrelated parties in the financial statements.

On October 8, 2021, BIHI provided a $377 million interest-bearing loan to NER SPC. NER SPC used the loan to finance the excess reserve capital associated with the reinsurance transaction that closed in October. The loan is expected to be repaid with third-party financing arrangements within the next year.

The Company had $64 million of cash on deposit with wholly-owned subsidiaries of Brookfield Asset Management as at December 31, 2021. During the year, the Company drew on approximately $742 million of the deposit to fund new reinsurance and PRT transactions, as well as various investments.

NOTE 18. SEGMENT REPORTING

Effective in the fourth quarter of 2021, the Company's operations are organized into two operating segments: Reinsurance and PRT. These segments are regularly reviewed by the CODM for the purpose of allocating resources to the segment and to assess its performance. Prior to this, operations were attributable to one segment: Insurance. During the fourth quarter, management entered into significant reinsurance arrangements and thus, reporting to the CODM was changed. The prior year results have been restated to reflect this change.

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, income taxes, income from equity accounted investments, mark-to-market on hedging items, 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 YEAR ENDED DEC. 31, 2021 US$ MILLIONS	Reinsurance[1]	Pension Risk Transfer[2]	**Total**
Net premiums	$ 6,190	$ 1,016	**$ 7,206**
Interest revenue	2	55	**57**
Other net investment income, including funds withheld	125	(56)	**69**
Segment revenues	6,317	1,015	**7,332**
Proportionate share of equity accounted investment adjusted earnings	8	—	**8**
Benefits paid on insurance contracts, net	(220)	(72)	**(292)**
Changes in insurance reserves, net	(6,060)	(920)	**(6,980)**
Other reinsurance expenses	(19)	—	**(19)**
Operating expenses excluding transactions costs	(6)	(12)	**(18)**
Interest expense	(7)	—	**(7)**
Segment DOE	**13**	**11**	**24**
Corporate expenses			**(8)**
Income tax expense			**(2)**
Transaction costs			**(8)**
Net hedging expenses			**(59)**
Other activities			**9**
Net loss			**$ (44)**

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.

FOR THE YEAR ENDED DEC. 31, 2020 US$ MILLIONS	Reinsurance	Pension Risk Transfer[1]	**Total**
Net premiums	$ —	$ 430	**$ 430**
Interest revenue		30	**30**
Other net investment income, including funds withheld	—	54	**54**
Segment revenues	—	514	**514**
Benefits paid on insurance contracts, net	—	(39)	**(39)**
Changes in insurance reserves, net	—	(468)	**(468)**
Other reinsurance expenses	—	—	**—**
Operating expenses excluding transactions costs	—	(6)	**(6)**
Segment DOE			**1**
Net income			**$ 1**

1. Net premiums in our PRT segment include $1 million of insurance contracts ceded to other counterparties.

FOR THE YEAR ENDED DEC. 31, 2019 US$ MILLIONS	Reinsurance	Pension Risk Transfer[1]	Total
Net premiums	$ —	$ 325	**$ 325**
Interest revenue		20	**20**
Other net investment income, including funds withheld	—	37	**37**
Segment revenues	—	382	**382**
Benefits paid on insurance contracts, net	—	(25)	**(25)**
Changes in insurance reserves, net	—	(345)	**(345)**
Operating expenses excluding transactions costs	—	(6)	**(6)**
Segment DOE			**6**
Net income			**$ 6**

1. Net premiums in our PRT segment include $179 million of insurance contracts ceded to other counterparties.

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

Our PRT business is focused on the transfer of pension plan liabilities from corporate sponsors, and all premium revenues recorded for the years ended December 31, 2021, 2020 and 2019 were from Canadian counterparties.

Total premium revenues recorded within our Reinsurance segment for the year ended December 31, 2021 were from transactions with two United States ceding companies and represented 63% and 22% of total premium revenues, respectively.

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 DEC. 31, 2021 US$ MILLIONS	Reinsurance	Pension Risk Transfer	Other[1]	Total
Assets, excluding equity accounted investments	$ 7,577	$ 2,473	$ 1,099	**$ 11,149**
Equity accounted investments	344	—	—	**344**
Liabilities	6,803	2,269	986	**10,058**
Common equity	1,118	204	113	**1,435**

AS AT DEC. 31, 2020 US$ MILLIONS	Reinsurance	Pension Risk Transfer	Other[1]	Total
Assets, excluding equity accounted investments	$ —	$ 1,440	$ —	**$ 1,440**
Equity accounted investments	—	—	—	**—**
Liabilities	—	1,357	—	**1,357**
Common equity	—	83	—	**83**

AS AT DEC. 31, 2019 US$ MILLIONS	Reinsurance	Pension Risk Transfer	Other[1]	Total
Assets, excluding equity accounted investments	$ —	$ 927	$ —	**$ 927**
Equity accounted investments	—	—	—	**—**
Liabilities	—	861	—	**861**
Common equity	—	66	—	**66**

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

The geography of the Company's non-current assets are broken down as follows:

AS AT DEC. 31 US$ MILLIONS	**2021**	2020	2019
United States of America	**$ 1,121**	$ —	$ —
Canada	**3**	2	—
Cayman Islands	**1**	—	—
Bermuda	**1**	—	—
Total non-current assets	**$ 1,126**	$ 2	**$ —**

NOTE 19. FINANCIAL COMMITMENT

As at December 31, 2021, subsidiaries of the Company had loan commitment agreements with third parties to the maximum of $463 million exclusive of taxes and other operating expenses (2020 - $15 million). As at December 31, 2021, $81 million was loaned (2020 - $10 million). The amount were recognized as loans and receivables and unrated bonds.

As at December 31, 2021, BAC had undiscounted lease liabilities of $1 million which are within one to three years.

NOTE 20. 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 is 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 the capital requirements as at December 31, 2021 and December 31, 2020.

NOTE 21. SUPPLEMENTARY INSURANCE INFORMATION

The following table presents supplementary information for our two reportable segments:

Reinsurance

AS AT AND FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Insurance reserves	**$ 6,254**	$ —	$ —
Deferred acquisition costs	**776**	—	—
Net investment income on reserve assets	**47**	—	—
Benefit expenses	**220**	—	—
Gross premiums	**6,190**	—	—
Amortization of deferred acquisition costs and other	**1**	—	—

Pension Risk Transfer

AS AT AND FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Insurance reserves	**$ 2,243**	$ 1,339	$ 856
Reinsurance assets	**169**	190	197
Net investment income on reserve assets	**(3)**	82	56
Benefit expenses	**90**	63	39
Benefit expenses ceded	**(18)**	(25)	(14)
Gross premiums	**1,017**	431	504
Ceded premiums	**(1)**	(1)	(179)

NOTE 22. SUBSEQUENT EVENTS

On January 7, 2022, the Company announced that it has purchased an additional 6,775,000 shares of common stock of AEL Holdings, bringing its total combined equity interest in AEL Holdings to approximately 16%. The Company acquired the additional shares issued from treasury at a price of $37.33 per share, being AEL Holdings's adjusted book value as of September 30, 2021, for total consideration of approximately $253 million.

On March 9, 2022, the Company's credit agreement with Brookfield Asset Management was increased to $400 million. As at the date of these financial statements, there were no amounts drawn on the credit facility

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

This management's discussion and analysis ("MD&A"), dated as of March 22, 2022, covers the financial position as of December 31, 2021 and December 31, 2020 and the results of operations for the years ended December 31, 2021, December 31, 2020 and December 31, 2019 which are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). The information in this MD&A should be read in conjunction with the audited Combined Consolidated Financial Statements ("the financial statements") as of December 31, 2021 and December 31, 2020 and for the years ended December 31, 2021, December 31, 2020 and December 31, 2019.

Unless the context requires otherwise, when used in this MD&A, the terms "we", "us", "our", or the "company" means Brookfield Asset Management Reinsurance Partners Ltd. together with all of its subsidiaries and the term "Brookfield" means Brookfield Asset Management, its subsidiaries and controlled companies and any investment fund sponsored, managed or controlled by Brookfield Asset Management or its subsidiaries, and does not, for greater certainty, include us or Oaktree Capital Group, LLC and Atlas OCM Holdings, LLC and its subsidiaries.

In addition to historical information, this MD&A contains forward-looking statements. Readers are cautioned that these forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. See "Forward-Looking Information".

Overview of Our Business

Our company is an exempted company limited by shares incorporated under the laws of Bermuda on December 10, 2020 under the laws of Bermuda. Our company was established by Brookfield to own and operate a leading reinsurance business focused on providing capital-based and annuity solutions to insurance and reinsurance companies and pension risk transfer products for pension plan sponsors. In doing so, the Company seeks to match long-duration liabilities with a portfolio of high-quality investments in order to generate attractive, risk-adjusted returns within our business. Our relationship with Brookfield provides us with access to a diverse mix of leading alternative investment strategies that we believe are well-suited for this purpose. Our business is presently conducted through our subsidiaries under two operating segments, which we refer to as our reinsurance business and our PRT business. Our reinsurance business currently focuses on annuities-based products. Over time, we may look for opportunities to expand our reinsurance business to cover other longer-duration products such as life insurance and structured settlements.

Reinsurance

Within our reinsurance business, we are focused primarily on the reinsurance of annuity-based products, and will primarily seek to transact with direct insurers and other reinsurers operating in North America and Western Europe.

Annuities are insurance contracts that provide a defined income stream, typically for retirement planning. Policyholders deposit money with an insurance company in return for a fixed stream of cash flows either immediately or in the future. Reinsurance is an arrangement whereby an insurance company, the reinsurer, agrees to indemnify another insurance company, referred to as the ceding company or cedant, for all or a portion of the insurance risks that are underwritten by the ceding company. Reinsurance serves multiple purposes, including to (1) transfer insurance risk off of a ceding company's balance sheet, enabling it to more efficiently manage balance sheet capacity to increase the volume of business it can underwrite (2) stabilize a ceding company's operating results, (3) assist the cedant in achieving applicable regulatory requirements, and (4) optimize the overall financial strength and capital structure of the cedant.

Reinsurance may be structured as a block transaction, pursuant to which a reinsurer contractually assumes assets and liabilities associated with an in-force book of business, or as a flow arrangement, pursuant to which a reinsurer contractually agrees to assume assets and liabilities for future business.

We primarily seek to reinsure three types of annuity products: fixed annuities, fixed index annuities and payout annuities.

Fixed Annuities

A fixed annuity ("FA") is a type of insurance contract that provides a fixed rate of investment return (often referred to as a crediting rate) for a specified period of time. Fixed rate reset annuities have a crediting rate that is typically guaranteed for a period of one year, after which insurers are able to change the crediting rate at their discretion, generally to any rate at or above a previously guaranteed minimum rate.

Insurers earn income on FA contracts by generating a net investment spread, which is based on the difference between income earned on the investments supporting the liabilities and the crediting rate owed to customers.

Fixed Index Annuities

A fixed index annuity ("FIA") is an insurance contract in which the policyholder makes one or more premium deposits that earn interest at a crediting rate based on a specified market index. Policyholders are entitled to recurring or lump sum payments for a specified period of time. FIAs provide policyholders with the ability to earn interest without significant downside risk to their principal balance. A market index tracks the performance of a specific group of stocks or other assets representing a particular segment of the market, or in some cases, an entire market. A policyholder's crediting rate in relation to a market index is based on the change in the relevant market index, subject to a pre-defined cap (a maximum rate that may be credited), spread (a credited rate determined by reducing a specific rate from the index return) and/or a participation rate (a credited rate equal to a percentage of the index return).

Insurers earn income on FIA contracts based on a net investment spread, which is the difference between income generated on investments supporting the liabilities and the interest that is credited to policyholders.

Payout Annuities

A payout annuity is an income-generating insurance product. In exchange for a lump-sum premium, the policyholder receives a series of guaranteed income payments for one lifetime, two lifetimes, or a specified period of time.

Insurers earn income on payout annuity contracts based on a net investment spread, which is the difference between income generated on investments supporting the liabilities and the interest that is credited to policyholders.

We operate our reinsurance business through licensed operating companies, North End Re (Cayman) SPC ("NER SPC") and North End Re Ltd ("NER Ltd."). On September 3, 2021, NER Ltd. entered into a retrocession agreement with a third party to reinsure a block of U.S. annuities. At the time of closing, the retrocession agreement had a retrospective effective date of April 1, 2021, representing the date on which the company has the reinsurance contractual obligations. On October 8, 2021, NER SPC closed a reinsurance agreement with a third-party insurance company to reinsure fixed indexed annuities. At the time of closing, the reinsurance agreement had a retrospective effective date of July 1, 2021, representing the date on which the company has the reinsurance contractual obligations. As of December 31, 2021, NER SPC and NER Ltd. had $4.7 billion and $1.6 billion of insurance reserves, respectively.

Pension Risk Transfer

PRT is the transfer by a corporate sponsor of the risks (or some of the risks) associated with the sponsorship and administration of a pension plan, in particular, investment risk and longevity risk, which is the risk of an increase in life expectancy of plan beneficiaries. These risks can be transferred either to an insurer like us through a group annuity transaction, or to an individual through a lump-sum settlement payment. PRT using insurance typically involves a single premium group annuity contract that is issued by an insurer, permitting the corporate pension plan sponsor to discharge certain pension plan liabilities from its balance sheet.

A PRT insurance transaction may be structured as either a buy-out annuity or a buy-in annuity. Under a buy-out annuity, a direct insurer enters into a group annuity contract with the plan sponsor and assumes the liability to fund, administer, and pay benefits covered under the contract directly to the individual pension plan members covered under the contract. Under a buy-in annuity, the insurer enters into a group annuity contract with the plan sponsor and is liable to fund and pay the benefits covered under the contract to the pension plan fund, with the plan sponsor retaining the liability to administer and pay pension benefits to plan members. In both cases, the insurer assumes the investment and longevity risk.

Insurers earn income on buy-out and buy-in group annuities by generating a net investment spread, which is based on the difference between income earned on the investments supporting the annuity contract and the cost of the pension liabilities assumed.

Today, our PRT business is operated through Brookfield Annuity Company ("BAC"), a Canadian domiciled, licensed and regulated direct life insurance company that provides PRT solutions to organizations across Canada. BAC is led by a team of experts with an average of over 25 years of experience in group annuities, pensions, insurance and investments.

BAC was incorporated in August 2016 as a wholly-owned indirect subsidiary of Brookfield Asset Management and wrote its first group annuity policy in the first quarter of 2017. As of December 31, 2021, BAC had $2.2 billion (C$2.8 billion) of policyholder reserves.

Life Insurance

Although today our business is focused primarily on annuity-based products, in the future we may look to expand our reinsurance business to cover other longer-duration products, including life insurance. Life insurance is a contract between an insurer and the insured person in which the insurer guarantees payment of a death benefit to named beneficiaries in exchange for premiums paid by the insured person. Insurers generate income based upon the income earned on assets invested in connection with the policy, relative to the cost of administration and the death benefit paid.

The following financial data is derived from our audited statements that are prepared in accordance with IFRS. Non-IFRS measures used in this MD&A are reconciled to or calculated from such values. All dollar references, unless otherwise stated, are in U.S. Dollars.

Continuity of Interest

Our company was established on December 10, 2020 by Brookfield Asset Management, and on June 28, 2021 Brookfield Asset Management completed the Spin-off of the company by way of a special dividend to holders of Brookfield Asset Management's Class A and Class B Limited Voting Shares. Prior to the Spin-off, Brookfield Asset Management controlled the portion of our business that was spun off to form our company (the "Business"). The Business transferred in connection with the Spin-off represented common control transactions recorded at historical carrying values. In accordance with the company accounting policy, the company has reflected the Business in its financial position and results of operations using Brookfield Asset Management's carrying value, prior to the Spin-off. To reflect this continuity of interest, the financial statements provide comparative information of the Business for the periods prior to the Spin-off, as previously reported by Brookfield Asset Management. 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 Asset Management. 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. Therefore, net income (loss) and comprehensive income (loss) not attributable to interests of others in operating subsidiaries has been allocated to Brookfield Asset Management 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.

Basis of Presentation

The company holds a direct 100% ownership interest in BAM Re Holdings Ltd., which holds the company's interest in its operating subsidiaries. Through its operating subsidiaries, the company provides annuity-based reinsurance products to insurance and reinsurance companies and acts as a direct issuer of PRT products for pension plan sponsors. The principal operating entities of the company generally maintain their own independent management and infrastructure.

Key Financial Data

The following present key financial data of the company:

US$ MILLIONS	**2021**	2020	2019
Gross premiums	**$ 7,207**	$ 431	$ 504
Net (loss) income for the year	**(44)**	1	6
Distributable Operating Earnings[1,2]	**30**	1	6
Net Investment Spread	**0.6%**	0.4%	0.7%
AUM	**9,747**	1,193	702
Excess Capital[1]	**720**	—	—
Net Reserve Capital[1]	**715**	83	66

1.Distributable operating earnings, excess capital, and net reserve capital are Non-IFRS measures. See "Reconciliation of Non-IFRS Measures".
2. Distributable operating earnings for 2021 is inclusive of $6 million relating to activities outside of our two operating segments.

Operating Results and Financial Review

CONSOLIDATED RESULTS OF OPERATIONS

Comparison of the Years Ended December 31, 2021, 2020 and 2019

The following table summarizes the financial results of our business for the years ended December 31, 2021, 2020 and 2019.

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Premiums			
Gross	**$ 7,207**	$ 431	$ 504
Ceded	**(1)**	(1)	(179)
Net premiums	**7,206**	430	325
Net investment income, including funds withheld	**138**	84	57
Total revenues	**7,344**	514	382
Income from equity accounted investments	**8**	—	—
Benefits paid on insurance contracts			
Gross	**310**	63	39
Ceded	**(18)**	(25)	(14)
Change in insurance reserves			
Gross	**6,958**	457	538
Ceded	**22**	11	(193)
Other reinsurance expenses	**19**	—	—
Operating expenses	**35**	6	6
Net hedging expenses	**59**	—	—
Interest expense	**9**	—	—
Total benefits and expenses	**7,394**	512	376
Net (loss) income before income taxes	**(42)**	2	6
Current tax expense	**—**	(1)	—
Deferred tax expense	**(2)**	—	—
Net (loss) income for the year	**$ (44)**	$ 1	$ 6

2021 vs. 2020

For the year ended December 31, 2021, we reported a net loss of $44 million, compared to net income of $1 million for the prior year.

Gross premiums increased by $6.8 billion in 2021 relative to the same period in 2020. The increase included $6.2 billion related to the closing of two large-block reinsurance transactions and a higher volume of PRT deals closed as compared to the prior year. During 2021, the company closed 26 PRT deals (2020 - 15), representing $1.1 billion of premiums and approximately 20% of the Canadian PRT market in 2021.

Net investment income including funds withheld increased by $54 million for the year ended December 31, 2021, relative to the same period in 2020. Net investment income comprises of interest and dividends received, as well as realized and unrealized gains and losses on financial instruments. Interest and dividends received increased reflecting the growth in the investment portfolio. Realized gains on investments increased in period as a result of funds withheld income from our first large-block reinsurance transaction.

Equity accounted income in 2021 of $8 million related to the company's investment in the common equity of American Equity Investment Life Holding Company ("AEL Holdings"). The company originally acquired a 9.5% interest in AEL Holdings at the time of Spin-Off and the investment was treated as a financial asset. Post spin-off, as a result of a firm commitment to enter into the reinsurance agreement with American Equity Investment Life Insurance Company ("AEILIC"), we concluded that we had significant influence over AEL Holdings, and as such, derecognized the financial asset and recorded an equity accounted investment.

Gross benefits paid to policyholders increased by $247 million in 2021 due to the new reinsurance transactions and an increase in annuitants in-pay in new PRT business since the prior year period. Ceded benefits represent amounts received from reinsurers. Ceded benefits for the year ended December 31, 2021 decreased by $7 million as a result of the deferred financing associated with the ceding contract.

The gross change in insurance reserves in 2021 increased by $6.5 billion compared to the same period in 2020, primarily due to the two large-block reinsurance transactions closed as noted above, new PRT transactions closed and the impact of market movements.

Other reinsurance expenses increased by $19 million in 2021 due to the reinsurance transactions entered into during the year, resulting in additional reinsurance related expenses settled since the treaty effective dates.

Operating expenses increased by $29 million during 2021 compared to 2020 as a result of additional personnel, professional services and transaction expenses related to the build out of our business. We also recorded unrealized gains and premium cost of the options on our corporate hedging activities as at December 31, 2021 of $59 million. Subsequent to year end, in January 2022, we unwound the hedge positions for a life to date gain on the positions, and the realized gains will be reflected in net income in the first quarter of 2022.

Net hedging expenses relate to costs incurred and mark to market movement associated with derivative contracts not directly related to the Company's insurance operating companies' investment portfolios or insurance reserves. Net hedging expenses of $59 million in the year relate to costs incurred to entered into corporate hedges and are partially offset by positive mark to market of hedges entered into as at December 31, 2021.

During 2021, DOE increased $29 million from the prior year to $30 million. We deployed $5 billion of the assets received on the closing of the reinsurance and PRT transactions and expect Distributable Operating Earnings to grow in the coming quarters as the assets received upon closing benefit from the deployment into our higher-yielding investment strategies.

2020 vs. 2019

For the year ended December 31, 2020, we reported net income of $1 million. This compares to net income of $6 million for the year ended December 31, 2019.

Gross premiums decrease by $73 million in 2020 relative to the same period in 2019. This decrease was due to a lower number of pension risk transfer deals closed during the year. Ceded premiums decreased by $178 million relative to the prior year. This is primarily related to one significant coinsurance reinsurance transaction in 2019 where we ceded $178.6 million of premiums.

Net investment income increased by $27 million in 2020, relative to the same period in 2019. Net investment income comprises of interest and dividends received, as well as realized and unrealized gains and losses on financial instruments. Interest and dividends received increased by $9 million reflecting the growth in the investment portfolio. Realized gains on financial instruments were lower by $6 million in 2020, relative to 2019, due to lower disposal activity in the year. Unrealized gains and losses on financial instruments in 2020 were positively impacted by strong mark-to-market performance of investments during the second half of the year resulting in $51 million of unrealized gains on investments and derivatives in 2020, relative to $27 million in 2019.

Gross benefits paid to policyholders increased by $24 million in 2020 due to the increase in new PRT business. Ceded benefits represent amounts received from reinsurers. Ceded benefits in 2020 increased by $11

million compared with the same period in 2019 as 2020 reflects the first full year of amounts received from reinsurers on treaties entered into in 2019. The company also entered into one additional reinsurance treaty in 2020.

The gross change in insurance contract liabilities in 2020 decreased by $81 million compared to the same period in 2019. The change in gross contract liabilities was primarily due to the impact of market movements, such as decreasing interest rates. Ceded change in insurance contract liabilities increased by $204 million due to the impact of market movements on the ceded reserves in 2020.

During 2020, DOE decreased $5 million to $1 million, primarily as a result of the overall lower rate environment experienced in 2020 compared with 2019.

CONSOLIDATED FINANCIAL POSITION

Comparison as at December 31, 2021 and December 31, 2020

The following table summarizes the financial position as at December 31, 2021 and December 31, 2020:

AS AT DEC. 31 US$ MILLIONS	**2021**	2020
Assets		
Cash and cash equivalents	**$ 393**	$ 35
Investments	**4,943**	1,193
Reinsurance funds withheld	**4,650**	—
Equity accounted investments	**344**	—
Deferred acquisition costs	**776**	—
Reinsurance assets	**169**	190
Derivative assets	**146**	7
Property and equipment	**2**	2
Other assets	**70**	13
Total assets	**11,493**	1,440
Liabilities		
Insurance reserves	**8,497**	1,339
Due to related parties	**467**	—
Reinsurance payable	**75**	—
Corporate borrowings	**693**	—
Deferred revenue	**82**	—
Liabilities of structured entities	**167**	—
Other liabilities	**77**	18
Total liabilities	**10,058**	1,357
Total equity	**1,435**	83
Total liabilities and equity	**$ 11,493**	$ 1,440

December 31, 2021 vs. December 31, 2020

Cash increased by $358 million during the year primarily as a result of cash and cash equivalents held within the investment portfolios of our new reinsurance treaties, as well as the capital provided to the company upon Spin-off, which is used to fund future transactions and working capital requirements.

Investments increased by $3.8 billion over the year, primarily as a result of new PRT deals won during the year, and investments held within the general account within our new reinsurance transactions. In addition,

investments included approximately $800 million of temporary corporate investments that will ultimately be transferred into our insurance investment portfolios in the near term.

The increase in equity accounted investments of $344 million related to our investment in AEL Holdings, as noted above.

Reinsurance funds withheld increased by $4.7 billion due to our two large-block reinsurance transactions that closed during the year. Each transaction included modified coinsurance arrangements, and as a result Reinsurance funds withheld represents the receivables from the ceding companies, including the embedded derivatives and modified coinsurance assets, and is partially offset by reinsurance funds withheld amounts payable.

Deferred acquisition costs increased by $776 million and relate to the large-block reinsurance transaction closed in 2021. Costs that were directly related to these reinsurance contracts were capitalized as deferred acquisition costs to the extent that they are recoverable from gross profits. Deferred acquisitions costs are amortized over the life of the policies in proportion to the estimated gross profits.

Insurance reserves increased by $7.2 billion due to $6.2 billion from two new reinsurance transactions and $1.1 billion from new PRT deals won.

The increase in due to related parties increased primarily as a result of a temporary bridge financing provided to a subsidiary of the company related to the financing of excess reserve capital within a recently closed reinsurance transaction. The financing is expected to be repaid in the near term, and replaced with third-party reserve capital financing.

Reinsurance payable relates to settlements payable to third-party reinsurers and cedants, and increased by $75 million during the period as a result of the new reinsurance treaties closed during the year.

Corporate borrowings increased by $693 million during the year primarily as a result of drawings on the Company's 364-day revolving credit facility for the purpose of temporarily warehousing attractive investment opportunities 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.

Deferred revenue increased by $82 million due to a negative ceding commission recognized as part of a reinsurance transaction closed during the year.

Liabilities of structured entities relate to debt and preferred securities issued by consolidated structured entities that our reinsurance treaties have invested in. The increase of $167 million relates to new debt and preferred securities issued by these entities during the period.

AUM increased $8.6 billion during 2021 to $9.7 billion as a result of growth from new Reinsurance and PRT business during the year.

Excess Capital is the amount of capital in the business that is not currently supporting insurance contracts within regulated insurance entities. Excess capital includes the Company's investment in AEL Holdings and other corporate investments.

Net reserve capital is the the capital within our company that supports our insurance reserves, and increased $632 million as a result of block reinsurance and PRT transactions closed during the year.

SEGMENT REVIEW

Effective in the fourth quarter of 2021, the Company's operations are organized into two operating segments:Reinsurance and PRT.

We measure operating performance primarily using Distributable Operating Earnings ("Distributable Operating Earnings" or "DOE") which measures our ability to acquire net pension assets at a positive margin, and invest these assets at a return that is greater than the accretion of the annuitants' liabilities.

Reinsurance

The following table presents Distributable Operating Earnings of our Reinsurance segment for the years ended December 31, 2021, 2020 and 2019:

FOR THE YEARS ENDED DEC.31 US$ MILLIONS	**2021**	2020	2019
DOE	**13**	—	—

For the year ended December 31, 2021

The company's Reinsurance operating companies commenced their reinsurance operations in 2021 and closed its first two large-block transactions in the second half of 2021.

We deployed $5 billion of the assets received on the closing of the reinsurance transactions and expect Distributable Operating Earnings from our Reinsurance segment to grow in the coming quarters as the assets received upon closing benefit from the deployment into our higher-yielding investment strategies.

Pension Risk Transfer

The following table presents Distributable Operating Earnings of our PRT segment for the years ended December 31, 2021, 2020 and 2019:

FOR THE YEARS ENDED DEC.31 US$ MILLIONS	**2021**	2020	2019
DOE	**11**	1	6

Comparison of the years ended December 31, 2021 and 2020

During 2021, the company closed 26 PRT deals (2020 - 15), representing $1.1 billion of premiums and approximately 20% of the Canadian PRT market in 2021.The increase in Distributable Operating Earnings was primarily as a result of an increased investment spread, as we focused on deploying the existing portfolio into higher-yielding investment strategies.

Comparison of the years ended December 31, 2020 and 2019

During 2020, the company closed 15 PRT deals compared with 19 in 2019. The decrease in Distributable Operating Earnings was primarily as a result of the overall lower rate environment experienced in 2020 compared with 2019.

Liquidity and Capital Resources

CAPITAL RESOURCES

We attempt to maintain sufficient financial liquidity at all times so that we are able to participate in attractive opportunities as they arise, better withstand sudden adverse changes in economic circumstances within our operating subsidiaries and maintain payments to policyholders, as well as maintain distributions to our shareholders. Our principal sources of liquidity are cash flows from our operations, and access to the company's third-party credit facility, and our credit facility and equity commitment with Brookfield Asset Management. We proactively manage our liquidity position to meet liquidity needs while looking to minimize adverse impacts on investment returns. We look to structure the ownership of our assets to enhance our ability to monetize them to provide additional liquidity, if needed. Our liquidity for the periods noted below consisted of the following:

AS AT DEC. 31 US$ MILLIONS	**2021**	2020
Cash and cash equivalents	**$ 393**	$ 35
Corporate financial assets	**243**	—
Undrawn credit facilities	**313**	42
Total liquidity	**$ 949**	$ 77

As of the date of this MD&A, our liquidity is sufficient to meet our present requirements for the foreseeable future. As part of the Spin-off, 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. The equity commitment may be called by the Company in exchange for the issuance of class C shares or junior preferred shares. In addition, in connection with the Spin-off we entered into a credit agreement with Brookfield as the lender, providing for a three year revolving $200 million credit facility in addition to our $150 million revolving credit facility with external banks. Subsequent to year end, the size of the revolving credit facility with Brookfield was increased to $400 million. As of the date of this MD&A, there were no amounts drawn on the Brookfield facility.

Liquidity within our operating subsidiaries may be restricted from time to time due to regulatory constraints. As at December 31, 2021, the company's cash and cash equivalents included $105 million of unrestricted cash resources that can be deployed to fund corporate activities as needed. We use the liquidity provided by our credit facilities for working capital purposes, and we may use the proceeds from the capital commitment to fund growth capital investments and acquisitions. The determination of which of these sources of funding the Company will access in any particular situation will be a matter of optimizing needs and opportunities at that time.

Comparison of the year ended December 31, 2021, 2020 and 2019

The following table presents a summary of our cash flows and ending cash balances for the years ended December 31, 2021 and 2020:

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Operating activities	**$ 1,581**	$ 399	$ 309
Investing activities	**(3,864)**	(385)	(268)
Financing activities	**2,640**	13	(35)
Cash and cash equivalents			
Cash and cash equivalents, beginning of year	**35**	13	8
Net change during the year	**357**	27	6
Foreign exchange on cash balances held in foreign currencies	**1**	(5)	(1)
Cash and cash equivalents, end of year	**$ 393**	$ 35	$ 13

Operating Activities

2021 vs. 2020

For the year ended December 31, 2021, we generated $1.6 billion of cash from operating activities compared to $399 million during 2020. The greater amount of cash generated was primarily due to $6.2 billion of favorable changes in insurance reserve due to two new reinsurance transactions and $82 million of deferred revenue, partially offset by $4.7 billion of changes in reinsurance funds withheld and $776 million of changes in deferred acquisition costs.

2020 vs. 2019

For the year ended December 31, 2020, we generated $399 million of cash from operating activities compared to $309 million during 2019. The increase was primarily as a result of new business written (net of ceded portion to reinsurers), compared to the prior year.

Investing Activities

2021 vs. 2020

For the year ended December 31, 2021, we deployed $3.9 billion of cash from investing activities compared to $385 million during 2020. The greater amount of cash used in the 2021 year was primarily due to additional assets acquired from the reinsurance transactions, the larger number of PRT transactions during the year, portfolio rebalancing activities and additional investments held on the company's balance sheet outside of insurance and reinsurance agreements. The increase of cash used is mainly comprised of $6.0 billion of purchase of investments, partially offset by $2.1 billion of proceeds on disposal of investments.

2020 vs. 2019

For the year ended December 31, 2020, we used $385 million to fund investing activities compared to $268 million during 2019. The greater use of cash in 2020 was primarily due to greater amount of business written and retained compared to the prior year.

Financing Activities

2021 vs. 2020

For the year ended December 31, 2021, we generated $2.6 billion of cash from financing activities compared to $13 million generated in the same period in 2020. The cash generated in the current year primarily relates to $1.4 billion of cash received from the issuance of the class A exchangeable shares, class B shares and class C shares of the company during the year, $378 million of net corporate borrowings from related parties and $693 million of corporate borrowings from external parties.

2020 vs. 2019

For the year ended December 31, 2020, we generated $13 million from financing activities compared to $35 million used in the prior year. The cash generated in the current year primarily relates cash received from the issuance of common shares. Cash used in financing activities in the prior year primarily related to net repayments on various repurchase agreements.

Financial Instruments

To the extent that we believe it is economic to do so, our strategy is to hedge a portion of our equity investments and/or cash flows exposed to foreign currencies by the company. The following key principles form the basis of our foreign currency hedging strategy:

- We leverage any natural hedges that may exist within our operations;
- We utilize local currency debt financing to the extent possible; and
- We may utilize derivative contracts to the extent that natural hedges are insufficient.

As at December 31, 2021, our common equity was $1.4 billion and included approximately $164 million invested in Canadian dollars. All cumulative translation adjustments recorded for the years ended December 31, 2021 and 2020 were related to foreign exchange movements on the Canadian dollar relative to the U.S. dollar.

As at December 31, 2021, we had a notional $846 million (December 31, 2020 - $235 million) of foreign exchange forward contracts in place to hedge against foreign currency risk.

For additional information, see Note 3, “Financial Instruments” of the Combined Consolidated Financial Statements.

Future Capital Obligations and Requirements

A subsidiary of the Company has loan commitment agreements to the maximum of $463 million exclusive of taxes and other operating expenses (December 31, 2020 - $15 million). As at December 31, 2021, $81 million was loaned (December 31, 2020 - $10 million). The amounts were recognized as loans and receivables and unrated bonds. For additional information, see Note 19, “Financial Commitment” of the Combined Consolidated Financial Statements.

Tabular Disclosure of Contractual Obligations

The table below outline the contractual obligations of the company as at December 31, 2021:

AS AT DEC. 31 2021 US$ MILLIONS	Payments due by year				
	Total	Less than 1 year	1- 3 years	4 - 5 years	More than 5 years
Insurance reserves	**$ 8,497**	$ 368	$ 769	$ 792	$ 6,568
Due to related party	**467**	467	—	—	—
Reinsurance payable	**75**	21	14	15	25
Deferred revenue	**82**	4	7	7	64
Accounts payable and other	**65**	65	—	—	—
Liabilities of structured entities	**167**	—	—	—	167
Funds withheld liabilities	**12**	12	—	—	—
Corporate borrowings	**693**	656	37	—	—
Total	**$ 10,058**	$ 1,593	$ 827	$ 814	$ 6,824

Brookfield Asset Management Operating Results

An investment in the class A exchangeable shares of the company is intended to be, as nearly as practicable, functionally and economically, equivalent to an investment in Brookfield Asset Management. A summary of Brookfield Asset Management's 2021, 2020 and 2019 full year operating results is provided below:

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Revenues	**$ 81,112**	$ 66,682	$ 67,826
Net income (loss)	**12,388**	707	5,354

Each class A exchangeable share has been structured with the intention of providing an economic return equivalent to one Brookfield Class A Share. We therefore expect that the market price of the class A exchangeable shares should be impacted by the market price of Brookfield Class A Shares and the business performance of Brookfield Asset Management as a whole. In addition to carefully considering the disclosure made in this MD&A, you should carefully consider the disclosure made by Brookfield Asset Management in its continuous disclosure filings. Copies of the Brookfield Asset Management's continuous disclosure filings are available electronically on EDGAR on the SEC's website at www.sec.gov or on SEDAR at www.sedar.com.

Industry Trends and Factors Affecting Our Performance

Pension Risk Transfer

The Canadian PRT market in which our PRT business currently operates has expanded over the last several years, with a growth rate of approximately 24% per annum since 2015. With over C$2.6 trillion of defined benefit plan assets under management according to Global Pension Assets Study - 2022 issued by Willis Towers Watson, we believe there are significant opportunities for us to grow our Canadian PRT business organically.

Life Insurance and Annuities

The annuities and life insurance industry in our target markets of North America and Western Europe consists of over $13 trillion of assets and is growing by approximately 4% annually. As described above, we will participate in this industry primarily by providing reinsurance of annuity-based products and PRT solutions and over time may look for opportunities to expand our reinsurance business into life insurance, structured settlements, and other long-duration products in order to take advantage of the growing industry. We believe the current trends present significant opportunities for us to grow our Reinsurance business.

- **Low interest rates are differentiating those with access to higher-yielding investments.** Insurers invest primarily in fixed income products and declining yields have put pressure on profitability, creating opportunities for those with higher-yielding alternative investment management capabilities to outperform. Through our relationship with Brookfield, we have access to a diverse portfolio of suitable higher-yielding alternative investment products.

- **Many insurers are looking for ways to shift toward less asset-intensive insurance products.** Given the capital-intensive nature of life and annuity liabilities, many insurance companies with diversified exposure are looking to reduce their exposure to life and annuity products, including through reinsurance, in order to free up capital that they can deploy in support of less asset-intensive products and business lines.

- **Recent market conditions are exposing under-capitalized companies.** Some writers of annuity products are facing higher hedging costs amidst volatile markets, and changes in regulatory standards are increasing the transparency of liability valuations in the current low-rate environment. This has necessitated a need to raise or otherwise free up capital, and the reinsurance market offers writers of annuity products an opportunity to do so. We have access to capital and are able to provide capital support to these companies.

- **Public market valuations have compressed while capital needs have grown.** Insurers are trading at cyclical lows on a book value basis, and given the prevailing market environment, are looking to partner with organizations like ours that can provide solutions to address capital needs.

Market Risk

Our Combined Consolidated Statements of Financial Position include substantial amounts of assets and liabilities whose fair values are subject to market risks. Our significant market risks are primarily associated with interest rates, foreign currency exchange rates and credit risk. The fair values of our investment portfolios remain subject to considerable volatility. The following sections address the significant market risks associated with our business activities.

Foreign Exchange Rate Risk

The company's obligations under its insurance contracts are denominated in Canadian and United States dollars but a portion of the assets supporting these liabilities are denominated in non-Canadian and non-United States dollars. We manage foreign exchange risk using foreign exchange forwards. Our investment policy sets out the foreign currency exposure limits and types of derivatives permitted for hedging purposes.

Our net assets are subject to financial statement translation into U.S. Dollars. All of our financial statement translation-related impact from changes in foreign currency rates is recorded in other comprehensive income.

Interest Rate Risk

Interest rates currently remain at relatively low levels in many jurisdictions in which we operate. These rates may remain relatively low, but they may rise significantly at some point in the future, either gradually or abruptly. A sudden or unexpected increase in interest rates may cause certain market dislocations that could negatively impact our financial performance. Interest rate increases would also increase the amount of cash required to service our obligations and our earnings could be adversely impacted as a result thereof.

The company manages interest rate risk through their asset liability management, which we refer to as ALM, the framework whereby the effective and key rate durations of the investment portfolio are closely matched to that of the insurance reserves. Within the context of the ALM framework, we use derivatives including interest rate swaps and futures to reduce market risk. For the annuity business, where the timing and amount of the benefit payment obligations can be readily determined, the matching of asset and liability cash flows is effectively controlled through this comprehensive duration management process.

Credit Risk

Credit risk is the risk of loss from amounts owed by counterparties and arises any time funds are extended, committed, owed or invested through actual or implied contractual arrangements including reinsurance. The company is primarily exposed to credit risk through its investments in debt securities.

We manage exposure to credit risk by establishing concentration limits by counterparty, credit rating and asset class. To further minimize credit risk, the financial condition of the counterparties is monitored on a regular basis. These requirements are outlined in our investment policy.

Insurance Risk

The company makes assumptions and estimates when assessing reinsurance and insurance risks, and significant deviations, particularly with regards to longevity and policyholder behavior, could adversely affect our business, financial condition, results of operations, liquidity and cash flows. All transaction terms are likely to be determined by qualitative and quantitative factors, including our estimates. If we reinsure a block of business, there can be no assurance that the transaction will achieve the results expected at the time of the block's acquisition. These transactions expose us to the risk that actual results materially differ from those estimates.

We manage insurance risk through choosing whether to purchase reinsurance for certain amounts of risk underwritten within our pension risk transfer business, and we may also look to further reinsure certain amounts of risk we assume under our reinsurance agreements.

Legal Risk

In the future we may be parties in actions that routinely arise out of the normal course of business, including legal actions seeking to establish liability directly through insurance contracts or indirectly through reinsurance contracts issued by our subsidiaries. Plaintiffs occasionally seek punitive or exemplary damages. We do not believe that such normal and routine litigation will have a material effect on our financial condition or results of operations. We are also involved from time to time in other kinds of legal actions, some of which assert or may assert claims or seek to impose fines and penalties. We believe that any liability that may arise as a result of other pending legal actions will not have a material effect on our Combined Consolidated Financial Position or Operations.

Operational Risk

Operational risk is the potential for loss resulting from inadequate or failed internal processes, people and systems, or from external events. The company's internal control processes are supported by the maintenance of a risk register and independent internal audit review. The risk of fraud is managed through a number of processes including background checks on staff on hire, annual code of conduct confirmations, anti-bribery training and segregation of duties.

We have significant outsourcing arrangements in respect of pension administration and other functions. These arrangements are subject to agreements with formal service levels, operate within agreed authority limits and are subject to regular review by senior management. Material outsourcing arrangements are approved and monitored by the Board of Directors.

Disaster recovery and business continuity plans have also been established to manage the company's ability to operate under adverse conditions.

Impact of COVID-19

The World Health Organization declared COVID-19 to be a pandemic on March 11, 2020. To date, there have been restrictions on the conduct of business in many jurisdictions and the global movement of people and certain goods. We continue to closely monitor the related developments in light of the economic environment. The longer-term impacts from COVID-19 will depend on future developments which are highly uncertain, constantly evolving and difficult to predict. These impacts may differ in magnitude depending on a number of scenarios, which we continue to monitor and take into consideration in our decision making as we continue to assess medium to long-term impacts. Where COVID-19 relates specifically 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.

Critical Accounting Policy and Estimates

The preparation of the financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses that are not readily apparent from other sources, during the reporting period. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Critical judgments made by management and used in preparing the financial statements, are summarized below:

i. Insurance reserves

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 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

In accordance with IFRS 4, the Company has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards.

The long-term insurance reserves are calculated separately for each product type, based either on local regulatory requirements or existing local GAAP (at the later of the date of transition to IFRS or the date of the acquisition of the entity); and actuarial principles consistent with those applied in each local market.

Insurance reserves 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.

Insurance reserves represent the amount required to provide for future benefits payments and administrative expenses on policies in force with BAC. Insurance reserves are presented gross of reinsurance assets on the Combined Consolidated Statements of Financial Position. BAC's Appointed Actuary is responsible for determining the amount of insurance reserves in accordance with standards established by the CIA. CALM is used to determine insurance reserves 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 insurance reserves cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

BAC has designated invested assets supporting insurance reserves as FVTPL or as loans and receivables. Since the value of the insurance reserves is determined by reference to the assets supporting those reserves, changes in the insurance reserves offset a significant portion of the changes in fair value of these FVTPL assets recorded in net income (loss).

Insurance reserves are determined by NER Ltd. using US GAAP reserve methodology, as permitted by IFRS 4. Insurance reserves 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. Insurance reserves 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.

Insurance reserves are determined by NER SPC using US GAAP reserve methodology, as permitted by IFRS 4. Insurance reserves 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.

ii. Reinsurance assumed

NER Ltd. closed a retrocession agreement on September 3, 2021 with a third party insurance company to reinsure multi-year guarantee fixed annuities. At the time of closing, the retrocession agreement had a retrospective effective date of April 1, 2021, representing the date on which the Company has the reinsurance contractual obligations.

NER Ltd. assumes insurance contracts under modified coinsurance arrangements ("Modco"). NER Ltd. generally has the right of offset on reinsurance contracts but have elected to present reinsurance settlement amounts due to and from the cedant on a gross basis.

Assets and liabilities assumed under Modco are presented gross on the balance sheet. For insurance contracts, the change in assumed reserves and benefits are presented as change in insurance reserves on the Combined Consolidated Statements of Operations. Assumed premiums are included in premiums on the Combined Consolidated Statements of Operations. Expenses outside of account value, such as commissions and federal excise taxes, are included in other reinsurance expenses in the Combined Consolidated Statements of Operations.

NER SPC closed a retrocession agreement on October 8, 2021 with an insurance company which was the Company's associate to reinsure fixed indexed annuities. At the time of closing, the retrocession agreement had a retrospective effective date of July 1, 2021, representing the date on which the Company has the reinsurance contractual obligations.

NER SPC assumes insurance contracts under Modco and Coinsurance. NER SPC generally has the right of offset on reinsurance contracts but have elected to present reinsurance settlement amounts due to and from the cedant on a gross basis.

iii. Reinsurance ceded

In the normal course of business, BAC is a user 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 remains liable to its policyholders for the portion reinsured.

At each reporting date, the reinsurance asset and reinsurance receivable, if any, are assessed for impairment. If there is objective evidence that the reinsurance asset or reinsurance receivable 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.

BAC has two types of reinsurance arrangements.

<u>Longevity reinsurance</u>

BAC enters into longevity reinsurance transactions with third party reinsurers. As part of the agreements, the Company commits to pay the reinsurers a schedule of fixed payments relating to a proportion of defined blocks of policyholder benefits. In return, the reinsurers reimburse the actual cost of their proportion of benefit expenses on those blocks to BAC. Settlement of fixed and actual payments between BAC and the reinsurers are on a net basis. The difference between fixed and actual payments on past service is recognized in the same period as the related claim is incurred within benefits ceded in the Combined Consolidated Statements of Operations. Any unsettled

amounts on past service from the reinsurers is recognized as a reinsurance receivable or payable in the Combined Consolidated Statements of Financial Position.

BAC is liable for reinsurance fees for the transactions. The fees are recognized as incurred and are included in ceded premiums in the Combined Consolidated Statements of Operations.

The benefits to which BAC is entitled under its reinsurance transactions are recognized as reinsurance assets in the Combined Consolidated Statements of Financial Position. The reinsurance assets related to longevity reinsurance is the difference between the schedule of fixed and actual benefit payments on a proportion of defined blocks of business.

Quota share reinsurance

BAC enters into quota share reinsurance transactions with third-party reinsurers. The agreement covers policyholder benefits for a proportion of business reinsured. The proportion varies for certain discrete blocks of business.

At the inception of each quota share reinsurance contract, premiums ceded and a corresponding decrease in cash or payable is recognized in proportion to the business reinsured by the external reinsurer. BAC also recognizes a reinsurance asset and a change in insurance reserves ceded in the Combined Consolidated Statements of Financial Position and the Combined Consolidated Statements of Operations, respectively. The benefits to which BAC is entitled under its reinsurance contracts are recognized as reinsurance assets.

The reinsurer is committed to pay BAC a proportion of actual benefit expenses. The amounts are reported in benefits ceded in the same period as the related benefit expense is incurred. In cases where the benefit payments are due but not fully received from the reinsurer, BAC will recognize a reinsurance receivable. In cases where benefit payments are due, but amounts are received in excess from the reinsurer, BAC will recognize a reinsurance payable.

Under reinsurance contracts with unregistered reinsurers, assets are required to be pledged to BAC in order to secure payment of liabilities under the reinsurance agreement. Unregistered reinsurers are reinsurers which are not regulated by OSFI. The pledged assets are held in Canada by a Canadian financial institution that is not affiliated with the third party reinsurer. BAC maintains a valid and enforceable security interest that has priority over any other security interest in the collateral. In the event of default by the reinsurer, BAC has the right to liquidate or take legal possession of these assets, in a timely manner.

iv. Deferred acquisition costs

The Company incurs costs in connection with acquiring or renewal of reinsurance business. Costs that are directly related to the successful acquisition of reinsurance contracts are capitalized as deferred acquisitions costs ("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. The DAC is amortized over the life of the policies in proportion to the estimated gross profits

v. Premiums

Gross premiums are recognized as revenue when due and collection is reasonably assured. When premiums are recognized, insurance reserves 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.

vi. Deferred revenue

The deferred revenue for interest-sensitive life and investment-type contracts is amortized over the life of the policies. Different amortization methods are permissible, one of these methods being present value of estimated gross profits. However, if estimated gross profits are expected to be negative, alternative amortization techniques are to be used. Given the absence of initial profits for NER Ltd., the deferred revenue is amortized by number of in-force policies. Estimates of in-force policy numbers are based on assumptions using accepted actuarial methods. Amortization is recorded in total revenue within the Combined Consolidated Statements of Operations.

vii. Benefits paid

Gross benefits and benefits ceded are recorded in the Combined Consolidated Statements of Operations when they are due and incurred.

viii. Investment in associates

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. We use the equity method to account for our investments in associates within the Combined Consolidated Statements of Financial Position.

Interests in associates accounted for using the equity method are initially recognized at cost. At the time of initial recognition, if the cost of the associate 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 is greater than the Company's proportionate share of the underlying fair value, goodwill relating to the associate is included in the carrying amount of the investment.

Subsequent to initial recognition, the carrying value of the Company's interest in an associate is adjusted for the Company's share of comprehensive income and distributions of the investee. Profit and losses resulting from transactions with an associate are recognized in the financial statements based on the interests of unrelated investors in the investee. The carrying value of associates 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 8.

ix. 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.

x. Net hedging expenses

Net hedging expenses relate to costs incurred and mark to market movement associated with derivative contracts not directly related to the Company's insurance operating companies' investment portfolios or insurance reserves.

Future Accounting Policy Changes

i. IFRS 17 Insurance Contracts

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 include 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 Combined Consolidated Statements of Operations. 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 Financial Instruments

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. The Company qualifies and has elected to take the deferral approach as its activities are predominantly connected with insurance.

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 is currently assessing the impact of implementing IFRS 9 on the Combined Consolidated Financial Statements. Further details are disclosed in Note 3(h).

iii. Amendments to IFRS 3

In May 2020, the IASB issued Reference to the Conceptual Framework, which includes amendments to IFRS 3 Business Combinations. The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. The amendments apply to business combinations for which the acquisition date is on or after January 1, 2022. The Company is currently assessing the impact of the adoption of these amendments on the Combined Consolidated Financial Statements.

iv. Amendments to IAS 37

In May 2020, the IASB issued Onerous Contracts - Cost of Fulfilling a Contract, which includes amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company is currently assessing the impact of the adoption of these amendments on the Combined Consolidated Financial Statements.

v. Annual Improvements to IFRS Standards 2018-2020

In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018-2020, which includes minor amendments to three IFRS standards applicable to our Combined Consolidated Financial Statements. The amendments apply prospectively. The amendments are effective for annual periods beginning on or after January 1, 2022.

vi. 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 Combined Consolidated Financial Statements.

vii. 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 1 January 2023. The Company is currently assessing the impact of the adoption of these amendments on the Combined Consolidated Financial Statements.

viii. 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 Combined Consolidated Financial Statements.

Performance Measures Used by Management

To measure performance, we focus on net income and gross premiums, as well as certain non-IFRS measures, including Distributable Operating Earnings, Excess Capital, and Net Reserve Capital. In addition, we provide certain metrics such as assets under management, which we refer to as AUM, which we believe are useful to investors to provide additional insights into the base upon which we earn investment income. Refer to the “Segment Review” section of this MD&A for further discussion on our performance measures as at December 31, 2021, and for the years ended December 31, 2021 and 2020 and 2019.

Non-IFRS Measures

We regularly monitor certain Non-IFRS measures that are used to evaluate our performance and analyze underlying business performance and trends. We use these measures to establish budgets and operational goals, manage our business and evaluate our performance. We also believe that these measures help investors compare our operating performance with our results in prior years. These Non-IFRS financial measures are provided as supplemental information to the financial measures presented in this MD&A that are calculated and presented in accordance with IFRS. These Non-IFRS measures are not comparable to IFRS and may not be comparable to similarly described Non-IFRS measures reported by other companies, including those within our industry. Consequently, our Non-IFRS measures should not be evaluated in isolation, but rather, should be considered together with the most directly comparable IFRS measure in our consolidated financial statements for the years presented. The Non-IFRS financial measures we present in this MD&A should not be considered a substitute for, or superior to, financial measures determined or calculated in accordance with IFRS.

Distributable Operating Earnings

Distributable Operating Earnings is a key measure of our financial performance. We use Distributable Operating Earnings to assess operating results and the performance of our businesses. We define Distributable Operating Earnings as net income excluding the impact of depreciation and amortization, income taxes, income from equity accounted investments, mark-to-market on hedging items, breakage and transaction costs, and is inclusive of our proportionate share of adjusted earnings from our investments in associates. Distributable Operating Earnings is a measure of operating performance that is not calculated in accordance with, and does not have any standardized meaning prescribed by IFRS as issued by the IASB. Distributable Operating Earnings is therefore unlikely to be comparable to similar measures presented by other issuers.

Excess Capital

Excess Capital is the amount of capital in the business that is not currently supporting insurance contracts within regulated insurance entities. We define Excess Capital as the total of cash on deposit with related parties, equity accounted investments, common shares, other fixed income securities, deferred tax assets and other capital items not related to capital supporting our insurance reserves.

Net Reserve Capital

Net Reserve Capital is the capital within regulated entities that is currently supporting insurance contracts. We define Net Reserve Capital as equity excluding Excess Capital. We use Net Reserve Capital to assess our return on our equity supporting insurance contracts.

We believe our presentation of Distributable Operating Earnings, Excess Capital, and Net Reserve Capital is useful to investors because it supplements investors' understanding of our operating performance by providing information regarding our ongoing performance that excludes items we believe do not directly affect our core operations. Our presentation of Distributable Operating Earnings also provide investors enhanced comparability of our ongoing performance across years.

For further details regarding our use of our Non-IFRS measures, as well as a reconciliation of net income and total equity to these measures, see the "Reconciliation of Non-IFRS Measures" section of this MD&A.

Operating Metrics

AUM

We define AUM as the total gross value of our managed insurance and investment assets, identified as investments and cash and cash equivalents in our consolidated financial statements. We believe this metric is useful in gauging the scale and growth of the business over time, and can be an indicator of future results when viewed in conjunction with our insurance liabilities.

Reconciliation of Non-IFRS Measures

The following table reconciles our net (loss) income to Distributable Operating Earnings:

FOR THE YEARS ENDED DEC. 31 US$ MILLIONS	**2021**	2020	2019
Net (loss) income	**$ (44)**	$ 1	$ 6
Income tax expense	**2**	—	—
Transaction costs	**8**	—	—
Mark-to-market on hedging items and other	**64**	—	—
Distributable Operating Earnings	**$ 30**	$ 1	$ 6

The following table reconciles our total equity to excess capital and net reserve capital:

AS AT DEC. 31 US$ MILLIONS	**2021**	2020	2019
Equity	**$ 1,435**	$ 83	$ 66
Less:			
Cash on deposit with related parties	**(64)**	—	—
Equity accounted investments	**(344)**	—	—
Common shares	**(243)**	—	—
Deferred tax asset	**(20)**	—	—
Other corporate net investments	**(49)**	—	—
Excess capital	**(720)**	—	—
Net reserve capital	**$ 715**	$ 83	$ 66

Forward-Looking Information

In addition to historical information, this MD&A contains "forward-looking information" within the meaning of applicable securities laws. Forward-looking information may relate to the company and Brookfield's outlook and anticipated events or results and may include information regarding the financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, dividends, distributions, plans and objectives of the company. Particularly, information regarding future results, performance, achievements, prospects or opportunities of the company, Brookfield Asset Management's or the Canadian, U.S. or international markets is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will" or "will be taken", "occur" or "be achieved".

The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. The following factors, among others, could cause our actual results to vary from our forward-looking statements:

We caution that the factors that may affect future results described in this MD&A are not exhaustive. The forward-looking statements represent our views as of the date of this MD&A and should not be relied upon as representing our views as of any date subsequent to the date of this MD&A. While we anticipate that subsequent events and developments may cause our views to change, we disclaim any obligation to update the forward-looking statements, other than as required by applicable law. For further information on these known and unknown risks, please see "Risk Factors" included in our most recent Annual Report on Form 20-F and other risks and factors that are described therein.

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