GIBRALTAR REINSURANCE COMPANY LTD.

Financial Statements and
Report of Independent Auditors

As of the fifteen month period ended December 31, 2019

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Report of Independent Auditors

To the Board of Directors and Management of Gibraltar Reinsurance Company Ltd.

We have audited the accompanying financial statements of Gibraltar Reinsurance Company Ltd., which comprise the statement of financial position as of December 31, 2019, and the related statements of operations and comprehensive income, of equity and of cash flows for the fifteen month period ended December 31, 2019.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gibraltar Reinsurance Company Ltd. as of December 31, 2019, and the results of its operations and its cash flows for the fifteen month period ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Notes 1, 6, and 8 to the financial statements, the Company has entered into significant transactions with Prudential International Insurance Service Company, LLC, The Prudential Life Insurance Company, Ltd., The Gibraltar Life Insurance Company, Ltd., and The Prudential Gibraltar Financial Life Insurance Company, Ltd., and certain other affiliates, all related parties. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

New York, New York
April 27, 2020

GIBRALTAR REINSURANCE COMPANY LTD.

Statement of Financial Position
As of December 31, 2019 (in thousands, except share amounts)

		2019
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: $2,461,546)	$	2,544,794
Other invested assets		19,337
Total investments		2,564,131
Cash and cash equivalents		28,650
Accrued investment income		8,097
Reinsurance recoverables		36,356
TOTAL ASSETS	$	2,637,234
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits, at fair value	$	2,393,640
Other liabilities		6,438
Total liabilities		2,400,078
EQUITY		
Common stock ($1 par value; 250,000 shares authorized, issued and outstanding)	$	250
Additional paid-in capital		190,300
Accumulated other comprehensive income (loss)		72,968
Retained earnings		(26,362)
Total Equity		237,156
TOTAL LIABILITIES AND EQUITY	$	2,637,234

See Notes to Financial Statements

GIBRALTAR REINSURANCE COMPANY LTD.

Statement of Operations and Comprehensive Income
Fifteen Month Period Ended December 31, 2019 (in thousands)

		2019
REVENUES		
Net investment income	$	12,026
Realized investment gains (losses), net		20,233
Other income (loss)		391
Total revenues		32,650
BENEFITS AND EXPENSES		
Changes in fair value of reinsurance balance	$	52,565
General, administrative and other expenses		6,447
Total benefits and expenses		59,012
NET INCOME (LOSS)	$	(26,362)
Other comprehensive income (loss):		
Foreign currency translation adjustments for the period	$	(4,031)
Net unrealized investment gains (losses)		83,248
Non-performance risk reserve		(6,249)
COMPREHENSIVE INCOME (LOSS)	$	46,606

See Notes to Financial Statements

GIBRALTAR REINSURANCE COMPANY LTD.

Statement of Equity
Fifteen Month Period Ended December 31, 2019 (in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
BALANCE, OCTOBER 12, 2018	$ 0	$ 0	$ 0	$ 0	$ 0
Capital contributions from parent	250	190,300			190,550
Comprehensive income:					
Net income (loss)			(26,362)		(26,362)
Other comprehensive income (loss)				72,968	72,968
Total comprehensive income (loss)					46,606
BALANCE, DECEMBER 31, 2019	$ 250	$ 190,300	$ (26,362)	$ 72,968	$ 237,156

See Notes to Financial Statements

GIBRALTAR REINSURANCE COMPANY LTD.

Statement of Cash Flows
Fifteen Month Period Ended December 31, 2019 (in thousands)

	2019
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income (loss)	$ (26,362)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Realized investment (gains) losses, net	(20,233)
Amortization	(588)
Change in:	
Future policy benefits	471,171
Derivative Instruments, net	458
Other, net	18,708
Cash flows from (used in) operating activities	443,154
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from the sale/maturity/prepayment of:	
Fixed maturities, available-for-sale	34,254
Short-term investments	84,207
Payments for the purchase/origination of:	
Fixed maturities, available-for-sale	(724,325)
Derivative Instruments, net	273
Cash flows from (used in) investing activities	(605,591)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Common stock issued	250
Capital contributions from parent	190,300
Cash flows from (used in) financing activities	190,550
Effect of foreign exchange rate changes on cash balances	537
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,650
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	0
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 28,650

Significant Non-Cash Transactions

In January 2019, the Company received invested assets of $1,853 million from Gibraltar Life and POJ. See Note 8 for additional information.

See Notes to Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Gibraltar Reinsurance Company Ltd., ("Gibraltar Re" or "the Company") is a wholly-owned subsidiary of Prudential International Insurance Holdings, Ltd ("PIIH"), which in turn is a direct wholly-owned subsidiary of Prudential Financial, Inc. ("PFI"), a United States of America ("U.S.") Corporation.

The Company was incorporated as a Bermuda exempted company on August 31, 2018 and licensed as a Class E insurer by the Bermuda Monetary Authority ("BMA"), under the Bermuda Insurance Act of 1978 (the "Act"), on October 12, 2018.

Effective January 1, 2019, the Company entered into reinsurance agreements with The Prudential Life Insurance Company, Ltd. ("POJ") and The Gibraltar Life Insurance Company, Ltd. ("Gibraltar Life"), both PFI affiliated companies domiciled in Japan, whereby the Company assumed, on a coinsurance basis, certain in force Japanese yen ("JPY")-denominated business.

Effective August 1, 2019 and September 30, 2019, the Company entered into reinsurance agreements with The Prudential Gibraltar Financial Life Insurance Company, Ltd. ("PGFL") and POJ, both PFI affiliated companies domiciled in Japan, whereby the Company assumed, on a coinsurance basis, certain new U.S. dollar (“USD”)-denominated business.

See Note 6 for additional information regarding the Company’s reinsurance agreements.

Basis of Presentation

The Company’s financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company's financial statements have been prepared for the fifteen month period from October 12, 2018 to December 31, 2019.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in determining the estimated fair value of future policy benefits and valuation of investments.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

ASSETS

Fixed maturities, available-for-sale, at fair value are comprised of bonds. Fixed maturities classified as "available-for-sale" are carried at fair value. See Note 5 for additional information regarding the determination of fair value. The associated unrealized gains and losses are included in "Accumulated other comprehensive income (loss)" ("AOCI"). The purchased cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity or, if applicable, call date.

Interest income, and amortization of premium and accretion of discount are included in "Net investment income" under the effective yield method. Additionally, prepayment premiums are also included in "Net investment income".

Other invested assets consist of the Company’s non-coupon investments in derivative assets including foreign exchange ("FX") spot/FX forward trades and interest rate swaps. See Note 4 for additional information.

Realized investment gains (losses) are computed using the specific identification method. Realized investment gains and losses are generated from numerous sources, including the sales of fixed maturity securities and free-standing derivatives that do not qualify for hedge accounting treatment. See "Derivative Financial Instruments" below for additional information regarding the accounting for derivatives.

Cash and cash equivalents include cash on hand, amounts due from banks, certain money market investments, funds managed similar to regulated money market funds, other debt instruments with maturities of three months or less when purchased.

Accrued investment income primarily includes accruals of interest income from investments that have been earned but not yet received.

Reinsurance Recoverables consist of receivables associated with reinsurance arrangements. For additional information about these arrangements see Note 6.

LIABILITIES

Future policy benefits, at fair value is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums.

This liability includes reserves related to accident and health, life and annuity policies. The Company has elected to use the Fair Value Option ("FVO") to measure these liabilities. For additional information see Note 5.

The impacts to the liability driven by changes in the Company's non-performance risk ("NPR") spread are included in AOCI.

The Company's liability for Future policy benefits also includes a liability for unpaid claims and claim adjustment expenses. The Company does not establish claim liabilities until a loss has been incurred. However, unpaid claims and claim adjustment expenses include estimates of claims that the Company believes have been incurred but have not yet been reported as of the balance sheet date.

Other liabilities consist primarily of trade payables, accrued expenses, and derivative liabilities. See "Derivative Financial Instruments" below for additional information regarding the accounting for derivatives.

REVENUES AND BENEFITS AND EXPENSES

Other income (loss) includes gains and losses primarily related to the remeasurement of foreign currency denominated assets and liabilities, as discussed in more detail under "Foreign Currency" below.

Changes in fair value of reinsurance balance consists of (1) Premiums from reinsurance agreements and allowance for commissions and expenses recognized when due; (2) Reinsurance gains the Company recognized as a result of reinsurance agreements entered into during the fifteen month period ended December 31, 2019; and (3) Policyholders' benefits recognized when incurred. Changes in future policy benefits are recorded when premiums are recognized using a fair value methodology.

OTHER ACCOUNTING POLICIES

Foreign Currency

The currency in which the Company prepares its financial statements (the "reporting currency") is the USD. Assets, liabilities and results of foreign business are recorded based on the functional currency of each foreign operation. The determination of the functional currency is based on economic facts and circumstances pertaining to each foreign operation.

The Company established a structure that disaggregates the JPY- and USD-denominated assumed businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. This alignment reduces differences in the accounting for changes in the value of these assets and liabilities that arise due to changes in foreign currency exchange rate movements.

There are two distinct processes for expressing these foreign transactions and balances in the Company's financial statements: foreign currency measurement and foreign currency translation. Foreign currency measurement is the process by which transactions in foreign currencies are expressed in the functional currency. Gains and losses resulting from foreign currency measurement are reported in current earnings in "Other income (loss)." Foreign currency translation is the process for expressing these foreign transactions and balances in the reporting currency of the Company's financial statements. Assets and liabilities of foreign operation reported in JPY are translated at the exchange rate in effect at the end of the period. Revenues, benefits and other expenses reported in JPY are translated at the average rate prevailing during the period. The effects of translating the statements of operations and financial position in JPY are included in "Foreign currency translation adjustments," a component of AOCI.

Derivative Financial Instruments

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices, values of securities or commodities, credit spreads, market volatility, expected returns, and liquidity. Values can also be affected by changes in estimates and assumptions, including those related to counterparty behavior NPR used in valuation models. Derivative financial instruments used by the Company include swaps and forwards and may be exchange-traded or contracted in the over-the-counter ("OTC") market. Derivative positions are carried at fair value, generally by obtaining quoted market prices or through the use of valuation models.

Derivatives are used to manage the interest rate and currency characteristics of assets or liabilities. Additionally, derivatives may be used to seek to reduce exposure to interest rate, credit, foreign currency and equity risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred. As discussed in detail below and in Note 4, all realized and unrealized changes in fair value of derivatives are recorded in current earnings in “Realized investment gains (losses), net”.

Derivatives are recorded either as assets within "Other invested assets" or as liabilities within "Other liabilities". The Company nets the fair value of all derivative financial instruments with its counterparty for which a master netting arrangement has been executed.

The Company's derivatives do not qualify for hedge accounting. All changes in the fair value of derivatives, including net receipts and payments, are included in "Realized investments gains (losses), net" without considering changes in the fair value of the economically associated assets or liabilities.

Reinsurance

For each of its reinsurance contracts, the Company determines if the contract provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. The Company reviews all contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims.

The Company has elected to use the FVO to value the insurance liabilities under reinsurance transactions. The fair value is reported in "Future policy benefits, at fair value". See Note 5 for additional information.

Reinsurance recoverables or payables relating to reinsurance agreements with the same counterparty are included in “Reinsurance recoverables” or “Other Liabilities”, respectively, on a net basis on the balance sheet as a right of offset exists within the reinsurance agreements. In addition to the reinsurance transactions with affiliated companies, the Company has entered into facultative reinsurance agreements to retrocede certain businesses to non-affiliated insurance companies. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements.

See Note 6 for additional information about the Company’s reinsurance agreements.

Income taxes

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on its income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation in Bermuda until March 2035.

RECENT ACCOUNTING PRONOUNCEMENTS

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Updates ("ASU") to the FASB Accounting Standards Codification. The Company considers the applicability and impact of all ASU. ASU listed below include those that have been adopted during the current period and/or those that have been issued but not yet adopted as of the date of this filing. ASU not listed below were assessed and determined to be either not applicable or not material.

ASUs issued but not yet adopted as of December 31, 2019

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	This ASU provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposures (e.g., loans held for investment, debt securities held to maturity, reinsurance receivables, net investments in leases and loan commitments). The model requires an entity to estimate lifetime credit losses related to such financial assets and exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The standard also modifies the current other-than-temporary impairment standard for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces existing standard for purchased credit deteriorated loans and debt securities.	January 1, 2020 using the modified retrospective method which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the current period of adoption. However, prospective application is required for purchased credit deteriorated assets previously accounted for under ASU 310-30 and for debt securities for which an other-than-temporary-impairment was recognized prior to the date of adoption. Early adoption was permitted beginning January 1, 2019.	The Company continues to test and refine its expected credit loss models and related systems, processes and controls for assets held on the Statement of Financial Position at amortized cost. We currently estimate the impact of the cumulative-effect adjustment to retained earnings to be immaterial.

3. INVESTMENTS

Fixed Maturity Securities

The following table sets forth the composition of fixed maturity securities, as of the date indicated:

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
			(in thousands)		
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 112,966	$ 11,027	$ 663	$ 123,330	$ 0
Foreign government bonds(1)	1,840,731	66,288	3,700	1,903,319	0
U.S. public corporate securities	181,066	10,692	533	191,225	0
Foreign public corporate securities	326,783	600	463	326,920	0
Total fixed maturities, available-for-sale	$ 2,461,546	$ 88,607	$ 5,359	$ 2,544,794	$ 0

(1) Represents Japanese government securities in which concentrations of credit risk of single issuers is greater than 10% of the Company's equity.

The following table sets forth the fair value and gross unrealized losses aggregated by investment category and length of time that individual fixed maturity securities had been in a continuous unrealized loss position, as of the date indicated:

	December 31, 2019					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
Fixed maturities, available-for-sale:						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 32,152	$ 663	$ 0	$ 0	$ 32,152	$ 663
Foreign government bonds	483,090	3,700	0	0	483,090	3,700
U.S. public corporate securities	60,480	533	0	0	60,480	533
Foreign public corporate securities	208,139	463	0	0	208,139	463
Total	$ 783,861	$ 5,359	$ 0	$ 0	$ 783,861	$ 5,359

The following table sets forth the amortized cost and fair value of fixed maturities by contractual maturities, as of the date indicated:

	December 31, 2019	
	Available-For-Sale	
	Amortized Cost	Fair Value
	(in thousands)	
Fixed maturities, available-for-sale:		
Due in one year or less	$ 40,139	$ 40,144
Due after one year through five years	332,923	332,909
Due after five years through ten years	666,102	672,200
Due after ten years	1,422,382	1,499,541
Total	$ 2,461,546	$ 2,544,794

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

The following table sets forth the sources of fixed maturity proceeds and related investment gains (losses), as well as losses on impairments of fixed maturities, as of the date indicated:

	December 31, 2019
	(in thousands)
Fixed maturities, available-for-sale:	
Proceeds from sales	$ 34,254
Proceeds from maturities/prepayments	0
Gross investment losses from sales and maturities	(27)

Other Invested Assets

The following table sets forth the composition of "Other invested assets," as of the date indicated:

	December 31, 2019
	(in thousands)
Derivative Instruments	$ 19,337
Total other invested assets	$ 19,337

Net Investment Income

The following table sets forth "Net investment income" by investment type, for the period indicated:

	Fifteen Month Period Ended December 31, 2019
	(in thousands)
Fixed maturities, available-for-sale	$ 12,497
Other invested assets	(8)
Short-term investments and cash equivalents	280
Gross investment income	12,769
Less: investment expenses	(743)
Net investment income	$ 12,026

Realized Investment Gains (Losses), Net

The following table sets forth "Realized investment gains (losses), net" by investment type, for the period indicated:

	Fifteen Month Period Ended December 31, 2019
	(in thousands)
Fixed maturities, available-for-sale	$ (27)
Short-term investments and cash equivalents	(51)
Derivative Instruments	20,311
Realized investment gains (losses), net	$ 20,233

Net Unrealized Gains (Losses) on Investments within AOCI

The following table sets forth net unrealized gains (losses) on investments, as of the date indicated:

	December 31, 2019
	(in thousands)
Fixed maturity securities, available-for-sale	$ 83,248
Net unrealized gains (losses) on investments	$ 83,248

4. DERIVATIVE INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

Interest Rate Contracts

Interest rate swaps are used by the Company to reduce risks from changes in interest rates, manage interest rate exposures arising from mismatches between assets and liabilities and to hedge against changes in their values it owns or anticipates acquiring or selling.

Swaps may be attributed to specific assets or liabilities or to a portfolio of assets or liabilities. Under interest rate swaps, the Company agrees with counterparties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional principal amount.

Foreign Exchange Contracts

Currency derivatives, including currency forwards, are used by the Company to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell.

Under currency forwards, the Company agrees with counterparties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. The Company executes forward sales of hedged foreign currencies in exchange for JPY at a specified exchange rate. The maturities of these forwards correspond with the future period in which the foreign-denominated earnings are expected to be generated.

Primary Risks Managed by Derivatives

The table below provides a summary of the gross notional amount and fair value of derivatives contracts by the primary underlying risks. Many derivative instruments contain multiple underlying risks. The fair value amounts below represent the value of derivative contracts prior to taking into account the netting effects of master netting agreements and cash collateral.

	December 31, 2019		
Primary Underlying Risk/	**Gross**	**Fair Value**	
Instrument Type	**Notional**	**Assets**	**Liabilities**
	(in thousands)		
Derivative Instruments Not Qualifying as Hedge Accounting Instruments:			
Interest Rate Swaps	$ 663,188	$ 49,680	$ (14,857)
Foreign Currency Forwards	189,686	0	(8,925)
Total Derivative Instruments (1)	$ 852,874	$ 49,680	$ (23,782)

(1) Recorded in "Other invested assets" and "Other liabilities" on the Statement of Financial Position.

Offsetting Assets and Liabilities

The following table presents recognized derivative instruments that are offset in the Statement of Financial Position, and/or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Statement of Financial Position.

	December 31, 2019				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
			(in thousands)		
Offsetting of Financial Assets:					
Derivative Instruments(1)	$ 49,680	$ (30,343)	$ 19,337	$ (19,337)	$ 0
Total Assets	$ 49,680	$ (30,343)	$ 19,337	$ (19,337)	$ 0
Offsetting of Financial Liabilities:					
Derivative Instruments(1)	$ 23,782	$ (23,782)	$ 0	$ 0	$ 0
Total Liabilities	$ 23,782	$ (23,782)	$ 0	$ 0	$ 0

(1) Amounts exclude the excess of collateral received/pledged from/to the counterparty.

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above, see "Counterparty Credit Risk" below.

Net Gains (Losses) for Non-qualifying Derivatives

The following table provides the financial statement classification and impact of derivatives used in non-qualifying hedge relationships.

	Fifteen Month Period Ended December 31, 2019
	Realized Investment Gains (Losses)
	(in thousands)
Derivative Instruments Not Qualifying as Hedge Accounting Instruments:	
Interest Rate	$ 28,858
Foreign Currency	(8,547)
Total non-qualifying hedges	20,311
Total	$ 20,311

Credit Derivatives

The Company has no exposure from credit derivative positions where it has written or purchased credit protection as of December 31, 2019.

Counterparty Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by a counterparty to financial derivative transactions with a positive fair value. The Company manages credit risk by entering into derivative transactions with its affiliate, Prudential Global Funding, LLC ("PGF"), related to its OTC derivatives. PGF, in turn, manages its credit risk by: (i) entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties governed by master netting agreement, as applicable; (ii) trading through central clearing and OTC parties; (iii) obtaining collateral, such as cash and securities, when appropriate; and (iv) setting limits on single-party credit exposures which are subject to periodic management review.

Substantially all of the Company’s derivative agreements have zero thresholds which require daily full collateralization by the party in a liability position.

5. FAIR VALUE OF ASSETS AND LIABILITIES

Fair Value Measurement – Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative fair value guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1—Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities.

Level 2—Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs. The Company's Level 2 assets and liabilities include: fixed maturities (corporate public and private bonds, government securities), cash and cash equivalents (primarily commercial paper), OTC derivatives and other liabilities.

Level 3—Fair value is based on at least one significant unobservable input for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value. The Company's Level 3 assets and liabilities primarily include future policy benefits.

Assets and Liabilities by Hierarchy Level - The tables below present the balances of assets and liabilities reported at fair value on a recurring basis, as of the dates indicated.

	As of December 31, 2019				
	Level 1	Level 2	Level 3	Netting(1)	Total
			(in thousands)		
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 123,330	$ 0	$ 0	$ 123,330
Foreign government bonds	0	1,903,319	0	0	1,903,319
U.S. corporate public securities	0	191,225	0	0	191,225
Foreign corporate public securities	0	326,920	0	0	326,920
Subtotal	0	2,544,794	0	0	2,544,794
Cash equivalents	5,172	0	0	0	5,172
Other invested assets	0	49,680	0	(30,343)	19,337
Total assets	$ 5,172	$ 2,594,474	$ 0	$ (30,343)	$ 2,569,303
Future policy benefits	$ 0	$ 0	$ 2,393,640	$ 0	$ 2,393,640
Other liabilities	0	23,782	0	(23,782)	0
Total liabilities	$ 0	$ 23,782	$ 2,393,640	$ (23,782)	$ 2,393,640

(1) "Netting" amounts represent cash collateral of $7 million as of December 31, 2019.

The methods and assumptions the Company uses to estimate the fair value of assets and liabilities measured at fair value on a recurring basis are summarized below.

Fixed Maturity Securities - The fair values of the Company's public fixed maturity securities are generally based on prices obtained from independent pricing services. Prices for each security are generally sourced from multiple pricing vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. The pricing hierarchy is updated for new financial products and recent pricing experience with various vendors. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs. Typical inputs used by these pricing services include but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flow, prepayment speeds, and default rates. If the pricing service updates the price to be more consistent with the presented market observations, the security remains within Level 2.

The Company conducts several specific price monitoring activities. Daily analysis identifies price changes over predetermined thresholds defined at the financial instrument level. Various pricing integrity reports are reviewed on a daily and monthly basis to determine if pricing is reflective of market activity or if it would warrant any adjustments. Other procedures performed include, but are not limited to, reviews of third-party pricing services methodologies, reviews of pricing trends and back testing.

Other Invested Assets - Other invested assets include derivatives including the FX spot/FX forward trades and interest rate swaps.

Derivative Instruments - Derivatives are recorded at fair value either as assets, within "Other invested assets" or as liabilities, within "Other liabilities". The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, credit spreads, market volatility, expected returns, NPR, liquidity and other factors.

The majority of the Company's derivative positions are traded in the OTC derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models that utilize actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or recent trading activity. The Company's policy is to use mid-market pricing in determining its best estimate of fair value. The fair values of most OTC derivatives, including interest rate and cross-currency swaps are determined using discounted cash flow models.

The Company's cleared interest rate swaps and credit derivatives linked to an index are valued using models that utilize actively quoted or observable market inputs, including Overnight Indexed Swap discount rates, obtained from external market data providers, third-party pricing vendors and/or recent trading activity. These derivatives are classified as Level 2 in the fair value hierarchy.

Cash Equivalents - Cash equivalents include money market instruments and other highly liquid debt instruments. The Company believes that due to the short-term nature of these instruments, the carrying value approximates fair value.

Future Policy Benefits - The FVO is elected by the Company for future policy benefits. As a result, the liabilities are measured at fair value at each financial reporting date reported in Future policy benefits.

The Company calculates the fair value of future policy benefits using discounted cashflow models. The fair values of these liabilities are calculated as the present value of future expected benefit payments to customers and the future expected expense allowances, minus the present value of projected future premiums. The fair value is based on the in-force business and calculated using actuarial and capital market assumptions.

Actuarial assumptions, including contractholder behavior and mortality, are reviewed at least annually, and updated based upon emerging experience, future expectations and other data, including any observable market data. These assumptions are generally updated annually unless a material change that the Company feels is indicative of a long-term trend is observed in an interim period. As these significant inputs are not observable, the valuation is accordingly considered as Level 3 in the fair value hierarchy.

Observable capital market inputs are used for the risk-free rates used in the discounting of future cashflows. The discounting for the liabilities also includes an adjustment for NPR. The NPR adjustment is calculated using publicly available information related to credit spreads on JPY-denominated corporate bonds.

The valuation of the liabilities also includes risk margins that are established to represent the additional compensation a market participant would require to assume the liabilities. The risk margins are calculated using a discounted cost of capital ("CoC") approach. The establishment of the risk margins requires the use of management judgement, including assumptions of the target capital ratios and cost of capital for a market participant.

Other Liabilities - Other liabilities include certain derivative instruments. The fair values of derivative instruments are primarily determined consistent with those described above under "Derivative Instruments."

Quantitative Information Regarding Internally-Priced Level 3 Assets and Liabilities - The tables below present quantitative information on significant internally-priced Level 3 assets and liabilities.

	As of December 31, 2019					
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Impact of Increase in Input on Fair Value(1)
			(in thousands)			
Liabilities:						
Future policy benefits(2)	$ 2,393,640	Discounted cash flow	Lapse rate(3)	0%	50%	Decrease
			Morbidity rate(4)	0%	100%	Increase
			Mortality rate(5)	0%	100%	Decrease

(1) Conversely, the impact of a decrease in input would have the opposite impact on fair value as that presented in the table.
(2) Since the valuation methodology for the Future policy benefits uses a range of inputs that vary at the product level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.
(3) For any given contract, lapse rates vary throughout the period over which cash flows are projected for the purposes of valuing the liability. Lapse rates are also generally assumed to be lower for the period where surrender charges apply.
(4) Morbidity rates may vary by product, age and duration.
(5) Mortality rates may vary by product, age and duration. A mortality improvement assumption is also incorporated into the overall mortality table.

Changes in Level 3 Assets and Liabilities – The following tables describe changes in fair values of Level 3 assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods. When a determination is made to classify assets and liabilities within Level 3, the determination is based on significance of the unobservable inputs in the overall fair value measurement. All transfers are based on changes in the observability of the valuation inputs, including the availability of pricing service information that the Company can validate. Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies and the use of indicative broker quotes for assets that were previously valued using observable inputs. Transfers out of Level 3 are generally due to the use of observable inputs in valuation methodologies as well as the availability of pricing service information for certain assets that the Company can validate.

	Fifteen Month Period Ended December 31, 2019										
	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for liabilities still held
						(in thousands)					
Liabilities:											
Future policy benefits	$ 0	$ (153,246)	$ 0	$ 0	$ (2,386,314)	$ 161,783	$ (15,863)	$ 0	$ 0	$ (2,393,640)	$ (151,379)

	Fifteen Month Period Ended December 31, 2019						
	Total realized and unrealized gains (losses)					Unrealized gains (losses) for liabilities still held	
	Realized investment gains (losses), net	Asset administration fees and other income	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)	Net investment income	Realized investment gains (losses), net	Asset administration fees and other income
				(in thousands)			
Liabilities:							
Future policy benefits	$ (146,997)	$ 0	$ 0	$ (6,249)	$ 0	$ (151,379)	$ 0

(1) "Other," for the period ended December 31, 2019, consists of in course of settlement and incurred but not reported reserves.

Fair Value of Financial Instruments

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. The financial instruments presented below are reported at carrying value on the Company's Statement of Financial Position. In some cases, as described below, the carrying amount equals or approximates fair value.

	December 31, 2019				
	Fair Value				Carrying Amount
	Level 1	Level 2	Level 3	Total	Total
			(in thousands)		
Assets:					
Cash and cash equivalents	$ 23,478	$ 0	$ 0	$ 23,478	$ 23,478
Accrued investment income	0	8,097	0	8,097	8,097
Reinsurance recoverables	0	36,356	0	36,356	36,356
Total assets	$ 23,478	$ 44,453	$ 0	$ 67,931	$ 67,931
Liabilities:					
Other liabilities	$ 0	$ 6,438	$ 0	$ 6,438	$ 6,438
Total liabilities	$ 0	$ 6,438	$ 0	$ 6,438	$ 6,438

The fair values presented above have been determined by using available market information and by applying market valuation methodologies, as described in more detail below.

Cash and Cash Equivalents, Accrued Investment Income and Reinsurance Recoverables

The Company believes that due to the short-term nature of certain assets, the carrying value approximates fair value. These assets include: cash and cash equivalent instruments, accrued investment income that meet the definition of financial instruments and reinsurance recoverables, unsettled trades and accounts receivable.

Other Liabilities

Other liabilities are primarily payables, such as unsettled trades and accrued expense payables. Due to the short term until settlement of most of these liabilities, the Company believes that carrying value approximates fair value.

6. REINSURANCE

The Company participates in reinsurance with its affiliates POJ, Gibraltar Life, and PGFL as well as third parties.

Information regarding significant reinsurance agreements is described below.

POJ

In January 2019, the Company entered into an agreement with POJ to assume a 35% quota share of certain in force JPY-denominated accident and health policies and annuities issued by POJ.

In September 2019, the Company entered into a reinsurance agreement with POJ to assume a 100% quota share of certain new USD-denominated life policies issued by POJ.

Gibraltar Life

In January 2019, the Company entered into an agreement with Gibraltar Life to assume a 35% quota share of certain in force JPY-denominated accident and health policies, life policies, and annuities issued by Gibraltar Life.

PGFL

In August 2019, the Company entered into a reinsurance agreement with PGFL to assume a 100% quota share of certain new USD-denominated life policies issued by PGFL.

Third Parties

The Company entered into facultative yearly renewable term reinsurance agreements with third parties to retrocede a part of mortality risks on certain assumed USD-denominated life policies issued by POJ and PGFL.

Significant effects of reinsurance amounts included in the Company's Statement of Financial Position as of December 31, were as follows:

	2019 (in thousands)
Reinsurance recoverables	$ 36,356
Future policy benefits, at fair value	$ 2,393,640
Other liabilities	$ 1

Significant effects of reinsurance amounts included in the Company's Statement of Operations and Comprehensive Income for the fifteen month period ended December 31, were as follows:

	Fifteen Month Period Ended December 31, 2019 (in thousands)
Changes in fair value of reinsurance balance	
Reinsurance assumed (1)	$ 52,564
Reinsurance ceded	1
Net changes in fair value of reinsurance balance	$ 52,565

(1) Includes gains the Company recognized as result of reinsurance agreements entered into during the fifteen month period ended December 31, 2019.

The gross and net amounts of life insurance face amount in force as of December 31, were as follows:

	2019 (in thousands)
Assumed gross life insurance face amount in force	$ 1,024,841
Reinsurance ceded	(747)
Net life insurance face amount in force	$ 1,024,094

7. EQUITY

The Bermuda capital and solvency return is an annual return relating to an insurer's risk management practices and information used by an insurer to calculate its Enhanced Capital Requirement ("ECR") and Target Capital Level ("TCL") as prescribed by Prudential Standard Rules made under section 6A of the Insurance Act 1978 ("the Act"). Every Class E insurer shall submit to the Bermuda Monetary Authority ("the BMA or the Authority") a completed capital and solvency return on or before its filing date of April 30th. The most recent version of the capital and solvency return is available on the BMA website.

The capital and solvency model is used to calculate an insurer's ECR, a capital and surplus requirement imposed by Rules made under section 6A of the Act. The ECR of an insurer shall be calculated at the end of its relevant year by the higher of the Bermuda Solvency Capital Requirement ("the BSCR") model and an approved internal model, if applicable, provided that the ECR amount is equal to or exceeds the Minimum Margin of Solvency ("the MSM"). The TCL of an insurer is calculated as 120% of the ECR and although not a capital requirement per se, insurers are expected to hold eligible capital resources to cover it; failure to do so will result in additional reporting requirements and enhanced monitoring, and in the submission of a remediation plan to restore capital above the TCL.

The BSCR model calculates a risk-based capital measure by applying capital factors to capital and solvency return elements, including investments and other assets, operational risk, and Long-Term insurance risks, in order to establish an overall measure of capital and surplus for statutory solvency purposes. The capital factor established for each risk element, when applied to that element, produces a required capital and surplus amount. The individual capital amounts generated for each risk element (excluding operational risk) are then summed. Covariance adjustments are made to arrive at the BSCR (after covariance adjustment), which may be further adjusted to include insurer-specific operational risk and capital add-ons, as assessed by the BMA, to finally produce the BSCR of an insurer.

An insurer's available statutory capital and surplus divided by the BSCR gives the BSCR ratio. An insurer's available statutory capital and surplus divided by the ECR gives the ECR ratio. The BSCR and ECR ratios will assist the BMA to evaluate the financial strength of an insurer.

The BSCR, ECR and TCL establish solvency capital levels that are used by the BMA to monitor the capital adequacy the Company as a class E insurer.

Return of Capital

The Company had no return of capital in 2019.

Return of Capital Restrictions

Any return of contributed capital that would reduce the Company's total statutory capital (share capital and contributed surplus) by 15% or more must be approved by the BMA.

Dividends

The Company did not pay a dividend during the current period that ended on December 31, 2019.

Dividend Restrictions

The Company may not pay dividends during any financial period if such payment would cause the Company to fail to meet its minimum solvency margin as defined in the Insurance Act (1978). Further, the Company may not distribute a dividend to any person other than a policy-holder unless the value of the assets of its long-term business fund, as certified by the Company's approved actuary, exceeds its insurance and other liabilities.

The Company may not pay a dividend or a distribution out of contributed surplus unless there are reasonable grounds for believing the Company will be remain able, and after the payment of the dividend or distribution, to meet its liabilities when they become due and that the realizable value of the Company's assets will, after the payment of the dividend or distribution, be greater than value of its liabilities.

Furthermore, dividends up to 25% of total statutory capital and surplus require Board Approval. Dividends above 25% of total statutory Capital and Surplus require Board approval and an affidavit, signed by at least two Directors and the Company's Principal Representative, filed with the BMA at least seven days prior to payment of the dividend.

Common Stock

As of December 31, 2019, Gibraltar Re had 250,000 shares of common stock authorized, issued and outstanding. The total shares of common stock outstanding are 100% owned by PIIH, the parent holding company of Gibraltar Re.

Accumulated Other Comprehensive Income (Loss)

AOCI represents the cumulative OCI items that are reported separate from net income and detailed on the Statement of Comprehensive Income. The balance of and changes in each component of AOCI as of and for the fifteen month period ended December 31, are as follows:

	Accumulated Other Comprehensive Income (Loss)			
	Foreign Currency Translation Adjustment	NPR adjustment to Future Policy Benefits	Net Unrealized Investment Gains (Losses)	Total Accumulated Other Comprehensive Income (Loss)
	(in thousands)			
Change in OCI before reclassifications	$ (4,031)	$ (6,249)	$ 83,275	$ 72,995
Amounts reclassified from AOCI	0	0	(27)	(27)
Balance, December 31, 2019	$ (4,031)	$ (6,249)	$ 83,248	$ 72,968

Reclassification out of Accumulated Other Comprehensive Income (Loss)

	Fifteen Month Period Ended December 31, 2019
	(in thousands)
Amounts reclassified from AOCI (1):	
Net unrealized investment gains (losses):	
Net unrealized investment gains (losses) on available-for-sale securities	$ 27
Total net unrealized investment gains (losses) (2)	27
Total reclassification for the period	$ 27

(1) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.
(2) See table below for additional information on unrealized investment gains (losses).

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains (losses) on securities classified as available-for-sale and certain other invested assets and other assets are included in the Company's Statement of Financial Position as a component of AOCI. Changes in these amounts include reclassification adjustments to exclude from "Other comprehensive income (loss)" those items that are included as part of "Net income" for a period that had been part of "Other comprehensive income (loss)" in earlier periods. The amounts for the periods indicated below, specific to all other net unrealized investment gains (losses), are as follows:

	Net Unrealized Investment Gains (Losses) on Investments	Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses)
	(in thousands)	
Balance, October 12, 2018	$ 0	$ 0
Net unrealized investment gains (losses) on investments arising during the period	$ 83,221	$ 83,221
Reclassification adjustment for gains (losses) included in net income	$ 27	$ 27
Balance, December 31, 2019	$ 83,248	$ 83,248

8. RELATED PARTY TRANSACTIONS

The Company has extensive transactions and relationships with Prudential International Insurance Service Company, LLC ("PIISC") and other affiliates.

Service agreements

PIISC and the Company operate under service agreements whereby certain general and administrative support services are provided to the Company by PIISC. PIISC periodically reviews its methods for determining the level of administrative expenses charged to the Company. These agreements obligate the Company to compensate PIISC for the appropriate cost of providing such services.

Affiliated Investment Management Expenses

The Company entered into an investment advisory agreement with Broad Street Global Advisors, LLC (BSGA), a PFI affiliated company, whereby BSGA provides discretionary investment advisory services to the Company, as directed by the Company's Investment Committee. Investment expenses paid to BSGA related to this agreement were $742 thousand for the fifteen month period ended December 31, 2019.

Derivative Trades

In its ordinary course of business, the Company enters into OTC derivative contracts with an affiliate, PGF. For these OTC derivative contracts, PGF has a substantially equal and offsetting position with an external counterparty. See Note 4 for additional information.

Affiliated Asset Transfers

The Company participates in affiliated asset trades with sister companies. The table below shows affiliated asset trades for the fifteen month period ended December 31, 2019:

Affiliate	Date	Transaction	Security Type	Fair Value	Book Value
				(in thousands)	
Gibraltar Life	January 2019	Transfer In	Fixed Maturities	$ 1,237,650	$ 1,237,650
POJ	January 2019	Transfer In	Fixed Maturities	$ 530,422	$ 530,422
Gibraltar Life	January 2019	Transfer In	Short-term Investments	$ 59,166	$ 59,166
POJ	January 2019	Transfer In	Short-term Investments	$ 25,357	$ 25,357
PIISC	January 2019	Transfer In	Derivative Instruments	$ 9,427	$ 9,427

Capital Contributions from Parent and Dividends

The Company received capital contributions of $190 million from PIIH for the fifteen month period ended December 31, 2019.

Through December of 2019, the Company did not pay any dividends.

Reinsurance with Affiliates

As discussed in Note 6, the Company participates in reinsurance transactions with certain affiliates.

9. LITIGATION

The Company is subject to legal and regulatory actions in the ordinary course of its business. The Company may also be subject to litigation that could arise out of its general business activities, such as its investments and third party contracts. Should such litigation arise, the plaintiffs may seek large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain. It is possible that the results of operations or the cash flow of the Company in a particular quarterly or annual period could be materially affected by any ultimate unfavorable resolution of litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period.

There are no pending legal or regulatory actions that are specific to the Company.

10. SUBSEQUENT EVENTS

During January 2020, the Company entered into agreements with affiliated companies to assume a 30% quota share of certain in force JPY-denominated accident and health, life and annuity policies and a 100% quota share of certain new USD-denominated single-premium fixed annuities products.

On March 11, 2020, the World Health Organization (“WHO”) declared COVID-19 a pandemic, and national governments have implemented a range of policies and actions to combat it. The extent of the impact of COVID-19 on world economies and the Company’s operations are highly uncertain and cannot be predicted at this time. Management will continue to monitor developments and their impact on the Company’s operations. If the financial markets and/or the overall global economy are impacted for an extended period, the Company’s operating results may be materially affected.