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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Financial Reassurance Company, Ltd.

### Opinions

We have audited the accompanying condensed financial statements of Financial Reassurance Company, Ltd. (the "Company"), which comprise the condensed balance sheets and condensed statements of capital and surplus as of December 31, 2021 and 2020, and the related condensed statements of income for the years then ended, including the related notes to the condensed financial statements.

#### Unmodified opinion on regulatory basis of accounting

In our opinion, the accompanying condensed financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations for the years then ended in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial Statements (the "Legislation").

#### Adverse opinion on U.S. generally accepted accounting principles

In our opinion, because of the significance of the matter discussed in the *Basis for adverse opinion on U.S. generally accepted accounting principles* section of our report, the accompanying condensed consolidated financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2021 and 2020, or the results of its operations for the years then ended.

#### Basis for opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the condensed financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Basis for adverse opinion on U.S. generally accepted accounting principles

As described in Note 3 to the condensed consolidated financial statements, the condensed consolidated financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Bermuda Monetary Authority.



## **Responsibilities of management for the condensed financial statements**

Management is responsible for the preparation and fair presentation of the condensed financial statements in accordance with the financial reporting provisions of the Legislation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the condensed financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the condensed financial statements are available to be issued.

## **Auditor's responsibilities for the audit of the condensed financial statements**

Our objectives are to obtain reasonable assurance about whether the condensed financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the condensed financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional scepticism throughout the audit.
- Identify and assess the risks of material misstatement of the condensed financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the condensed financial statements.
- Obtain an understanding of internal controls relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the condensed financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*KPMG Audit Limited*

Chartered Professional Accountants  
Hamilton, Bermuda  
April 27, 2022

**CONDENSED BALANCE SHEET**

Financial Reassurance Company, Ltd.

As at **December 31, 2021**

expressed in ['000s] **United States Dollars**

LINE No.		2021	2020
1.	CASH AND CASH EQUIVALENTS	53,742	55,695
2.	QUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity		
	ii. Other		
(b)	Total Bonds and Debentures	-	-
(c)	Equities		
	i. Common stocks		
	ii. Preferred stocks		
	iii. Mutual funds		
(d)	Total equities	-	-
(e)	Other quoted investments		
(f)	Total quoted investments	-	-
3.	UNQUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity		
	ii. Other		
(b)	Total Bonds and Debentures	-	-
(c)	Equities		
	i. Common stocks		
	ii. Preferred stocks		
	iii. Mutual funds		
(d)	Total equities	-	-
(e)	Other unquoted investments		
(f)	Total unquoted investments	-	-
4.	INVESTMENTS IN AND ADVANCES TO AFFILIATES		
(a)	Unregulated entities that conduct ancillary services		
(b)	Unregulated non-financial operating entities		
(c)	Unregulated financial operating entities		
(d)	Regulated non-insurance financial operating entities		
(e)	Regulated insurance financial operating entities		
(f)	Total investments in affiliates	-	-
(g)	Advances to affiliates		
(h)	Total investments in and advances to affiliates	-	-
5.	INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE:		
(a)	First liens		
(b)	Other than first liens		
(c)	Total investments in mortgage loans on real estate	-	-
6.	POLICY LOANS		
7.	REAL ESTATE:		
(a)	Occupied by the company (less encumbrances)		
(b)	Other properties (less encumbrances)		
(c)	Total real estate	-	-
8.	COLLATERAL LOANS		
9.	INVESTMENT INCOME DUE AND ACCRUED		
10.	ACCOUNTS AND PREMIUMS RECEIVABLE:		
(a)	In course of collection		
(b)	Deferred - not yet due		
(c)	Receivables from retrocessional contracts		
(d)	Total accounts and premiums receivable	-	-
11.	REINSURANCE BALANCES RECEIVABLE:		
(a)	Foreign affiliates		
(b)	Domestic affiliates		
(c)	Pools & associations		
(d)	All other insurers		
(e)	Total reinsurance balance receivable	-	-
12.	FUNDS HELD BY CEDING REINSURERS		
13.	SUNDRY ASSETS:		
(a)	Derivative instruments	6,582	6,576
(b)	Segregated accounts companies - long-term business - variable annuities		
(c)	Segregated accounts companies - long-term business - other		
(d)	Segregated accounts companies - general business		

**CONDENSED BALANCE SHEET**

Financial Reassurance Company, Ltd.

As at **December 31, 2021**

expressed in ['000s] **United States Dollars**

LINE No.		2021	2020
(e)	Deposit assets		
(f)	Deferred acquisition costs		
(g)	Net receivables for investments sold		
(h)	Prepaid Expenses	26	16
(i)			
(j)			
(k)	Total sundry assets	6,608	6,592
14.	<b>LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS</b>		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(e)	Total letters of credit, guarantees and other instruments	-	-
15.	<b>TOTAL</b>	<b>60,350</b>	<b>62,287</b>
	<b>TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS</b>		
16.	<b>UNEARNED PREMIUM RESERVE</b>		
(a)	Gross unearned premium reserves		
(b)	Less: Ceded unearned premium reserve		
	i. Foreign affiliates		
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other insurers		
(c)	Total ceded unearned premium reserve	-	-
(d)	Net unearned premium reserve	-	-
17.	<b>LOSS AND LOSS EXPENSE PROVISIONS:</b>		
(a)	Gross loss and loss expense provisions		
(b)	Less : Reinsurance recoverable balance		
	i. Foreign affiliates		
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other reinsurers		
(c)	Total reinsurance recoverable balance	-	-
(d)	Net loss and loss expense provisions	-	-
18.	<b>OTHER GENERAL BUSINESS INSURANCE RESERVES</b>		
19.	<b>TOTAL GENERAL BUSINESS INSURANCE RESERVES</b>	-	-
	<b>LONG-TERM BUSINESS INSURANCE RESERVES</b>		
20.	RESERVE FOR REPORTED CLAIMS		
21.	RESERVE FOR UNREPORTED CLAIMS		
22.	POLICY RESERVES - LIFE		
23.	POLICY RESERVES - ACCIDENT AND HEALTH		
24.	POLICYHOLDERS' FUNDS ON DEPOSIT		
25.	LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS		
26.	OTHER LONG-TERM BUSINESS INSURANCE RESERVES		
27.	<b>TOTAL LONG-TERM BUSINESS INSURANCE RESERVES</b>		
(a)	Total Gross Long-Term Business Insurance Reserves	-	-
(b)	Less: Reinsurance recoverable balance on long-term business		
	(i) Foreign Affiliates		
	(ii) Domestic Affiliates		
	(iii) Pools and Associations		
	(iv) All Other Insurers		
(c)	Total Reinsurance Recoverable Balance	-	-
(d)	<b>Total Net Long-Term Business Insurance Reserves</b>	-	-
	<b>OTHER LIABILITIES</b>		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE		
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE		
30.	LOANS AND NOTES PAYABLE		
31.	(a) INCOME TAXES PAYABLE		

**CONDENSED BALANCE SHEET**

Financial Reassurance Company, Ltd.

As at **December 31, 2021**expressed in ['000s] **United States Dollars**

LINE No.		2021	2020
	(b) DEFERRED INCOME TAXES		
32.	AMOUNTS DUE TO AFFILIATES	1,975	9,497
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	120	120
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:		
35.	DIVIDENDS PAYABLE		
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments		
(b)	Segregated accounts companies		
(c)	Deposit liabilities		
(d)	Net payable for investments purchased		
(e)	Fair value of Reinsurance Treaties	6,628	6,645
(f)	Other sundry liabilities	6,189	
(g)	Other sundry liabilities (specify)		
(h)	Total sundry liabilities	12,817	6,645
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(d)	Total letters of credit, guarantees and other instruments	-	-
38.	TOTAL OTHER LIABILITIES	14,912	16,262
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	14,912	16,262
	<b>CAPITAL AND SURPLUS</b>		
40.	TOTAL CAPITAL AND SURPLUS	45,438	46,025
41.	TOTAL	60,350	62,287
		TRUE	TRUE
		-	-

## CONDENSED STATEMENT OF INCOME

Financial Reassurance Company, Ltd.

As at December 31, 2021

expressed in ['000s] United States Dollars

LINE No.		2021	2020
	<b>GENERAL BUSINESS UNDERWRITING INCOME</b>		
1.	GROSS PREMIUMS WRITTEN		
	(a) Direct gross premiums written	(5)	(17)
	(b) Assumed gross premiums written		
	(c) Total gross premiums written	(5)	(17)
2.	REINSURANCE PREMIUMS CEDED		
3.	NET PREMIUMS WRITTEN	(5)	(17)
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS		
5.	NET PREMIUMS EARNED	(5)	(17)
6.	OTHER INSURANCE INCOME		
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	(5)	(17)
	<b>GENERAL BUSINESS UNDERWRITING EXPENSES</b>		
8.	INCURRED		
9.	COMMISSIONS AND BROKERAGE		
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	-	-
11.	<b>NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS</b>	(5)	(17)
	<b>LONG-TERM BUSINESS INCOME</b>		
12.	GROSS PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Direct gross premiums and other considerations		
	(b) Assumed gross premiums and other considerations		
	(c) Total gross premiums and other considerations	-	-
13.	PREMIUMS CEDED		
14.	NET PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Life		
	(b) Annuities	22	31
	(c) Accident and health		
	(d) Total net premiums and other considerations	22	31
15.	OTHER INSURANCE INCOME	(49)	(48)
16.	TOTAL LONG-TERM BUSINESS INCOME	(27)	(17)
	<b>LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES</b>		
17.	CLAIMS - LIFE		
18.	POLICYHOLDERS' DIVIDENDS		
19.	SURRENDERS		
20.	MATURITIES		
21.	ANNUITIES		
22.	ACCIDENT AND HEALTH BENEFITS		
23.	COMMISSIONS		
24.	OTHER		
25.	TOTAL LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES	-	-
26.	INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES):		
	(a) Life		
	(b) Annuities		
	(c) Accident and health		
	(d) Total increase (decrease) in policy reserves	-	-

**CONDENSED STATEMENT OF INCOME**

Financial Reassurance Company, Ltd.  
As at December 31, 2021  
expressed in ['000s] United States Dollars

LINE No.		2021	2020
27.	TOTAL LONG-TERM BUSINESS EXPENSES	-	-
28.	<b>NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS</b>	<u>(27)</u>	<u>(17)</u>
29.	<b>COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS</b>	<u>22</u>	<u>-</u>
	<b>UNDERNOTED ITEMS</b>		
30.	COMBINED OPERATING EXPENSE		
	(a) General and administration	612	539
	(b) Personnel cost		
	(c) Other		
	(d) Total combined operating expenses	612	539
31.	COMBINED INVESTMENT INCOME - NET	4	190
32.	COMBINED OTHER INCOME (DEDUCTIONS)		
33.	COMBINED INCOME BEFORE TAXES	<u>(586)</u>	<u>(349)</u>
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current		
	(b) Deferred		
	(c) Total	-	-
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	(586)	(349)
36.	COMBINED REALIZED GAINS (LOSSES)		
37.	COMBINED INTEREST CHARGES		
38.	NET INCOME	<u>(586)</u>	<u>(349)</u>

**CONDENSED STATEMENT OF CAPITAL AND SURPLUS**

Financial Reassurance Company, Ltd.  
 As at **December 31, 2021**  
 expressed in [000s] **United States Dollars**

LINE No.		2021	2020
1.	<b>CAPITAL:</b>		
(a)	Capital Stock		
	(i) Common Shares	370	370
	authorized	1	
	value	\$ 1,000	
	fully paid	370,000	
		shares of par	each issued and
			shares
	(ii)		
	(A) Preferred shares:		
	authorized		
	value		
	fully paid		
	aggregate liquidation value for —		
	2021		
	2020		
	(B) Preferred shares issued by a subsidiary:		
	authorized		
	value		
	fully paid		
	aggregate liquidation value for —		
	2021		
	2020		
	(iii) Treasury Shares		
	repurchased		
	value		
		shares of par	each issued
(b)	Contributed surplus	53,822	53,822
(c)	Any other fixed capital		
	(i) Hybrid capital instruments		
	(ii) Guarantees and others		
	(iii) Total any other fixed capital	-	-
(d)	Total Capital	54,192	54,192
2.	<b>SURPLUS:</b>		
(a)	Surplus - Beginning of Year	(8,167)	(7,818)
(b)	Add: Income for the year	(586)	(349)
(c)	Less: Dividends paid and payable		
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments		
(e)	Add (Deduct) change in any other surplus	(1)	
(f)	Surplus - End of Year	(8,754)	(8,167)
3.	<b>MINORITY INTEREST</b>		
4.	<b>TOTAL CAPITAL AND SURPLUS</b>	45,438	46,025



**FINANCIAL REASSURANCE COMPANY, LTD.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**December 31, 2021**

**General Notes to the Financial Statements**

1. Financial Reassurance Company, Ltd. (the "Company") was incorporated in Bermuda on December 10, 1980. The Company is a wholly owned subsidiary of Citigroup Financial Products Inc. The Ultimate parent company is Citigroup, Inc., a USA corporation.

Effective January 1, 2006, the Company amalgamated with an affiliated company, Atlantic Reinsurance Limited (a wholly owned subsidiary of Associates First Capital Corporation). The surviving company is Financial Reassurance Company, Ltd.

2. The Company entered into a number of quota share reinsurance agreements whereby it reinsures the Guaranteed Minimum Death Benefit ("GMDB"), Guaranteed Minimum Accumulation Benefit ("GMAB") and Guaranteed Minimum Income Benefit ("GMIB") embedded in the variable annuity contracts written by the cedants and covered under the reinsurance agreements.

The majority of the risks assumed by the Company are market based and the Company has hedged these risks with Citigroup Financial Products, Inc. ("CFPI") and Citibank N.A. ("CBNA") via modeled notional schedule derivative contracts. These derivative contracts were designed as a portfolio of put options whose collective terms replicate the terms of the reinsurance agreements, with the cash flows under the derivative contracts closely mirroring those under the reinsurance agreements. The modeled notional profiles for the derivative contracts have been structured using expected mortality and lapse projections based on assumptions provided by an independent actuary engaged by the Company.

The Company is exposed to losses on the contracts if the actual lapse or mortality experience develops unfavorably compared to the assumptions used to establish the modeled notional schedule on the derivative contracts. In addition, the Company could also be exposed to losses if the performance of the fund investments referenced by the derivative contracts does not match the performance of the actual fund investments held by the variable annuity contracts.

3. These condensed general purpose financial statements are prepared in accordance with financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Accounts Rules 2016 with respect to condensed general purpose financial statements (the "Legislation"). The recognition and measurement principles applied are in line with accounting principles generally accepted in the United States of America ("US GAAP"). The presentation of these financial statements in accordance with the guidance prescribed under the legislation differs from US GAAP in certain respects as follows:

- a. The format of the financial statements is prescribed by schedules IX and X of the Insurance Accounts Rules 2016.
- b. Statement of Cash Flows or equivalent is not included; and
- c. Certain disclosures required by US GAAP are not included
- d. Comprehensive income and its components are not presented in the condensed statement of income.

The effects of the foregoing variances from US GAAP on the accompanying condensed general-purpose financial statements have not been determined, but are presumed to be material.

4. The significant accounting policies followed by the Company are as follows:

**Premium income**

Premiums written represents premium due under the GMDB and GMIB reinsurance agreements. For the year ended December 31, 2021, the Company recorded premium received of (\$4,693) (2020: (\$16,806)).

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**FINANCIAL REASSURANCE COMPANY, LTD.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**December 31, 2021**

**General Notes to the Financial Statements** (continued)

4. The significant accounting policies followed by the Company are as follows (continued)

Fair Value Options

In accordance with the provisions of FASB Accounting Standards Codification 825, "Financial Instruments" ("ASC 825"), the Company has elected to use fair value accounting specifically for valuing certain reinsurance agreements together with the fixed notional derivative contracts with CFPI and CBNA.

Standards Codification 820, "Fair Value Measurements and Disclosures" ("ASC 820"). Under the provisions of ASC 825, a company can elect to report any financial instrument at fair value. ASC 820 sets out the framework for calculating and disclosing the fair value of financial instruments to be accounted for under ASC 825.

5. Refer to Note 4.
6. Foreign currency assets and liabilities are translated at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are translated at the average rate of exchange for the year. Exchange gains and losses are included in the determination of net income through Line 32.
7. There are no foreign exchange control restrictions affecting the assets of the insurer.
8. The Company has no outstanding commitments or contingencies.
9. The Company does not have any credit agreements.
10. There are no arrears of dividends on preferred cumulative shares.
11. There are no loans made during the relevant year by the insurer, to any directors or officers of the insurer.
12. The Company does not have any obligations in respect of retirement benefits.
13. The Company has no quoted or unquoted investments.
14. The Company has no fixed maturity and short-term investments.
15. The Company owes an amount to an affiliate company, Citicorp LLC BD for loans advanced to the Company for operational reasons. As at the year-end the balance is \$1,974,799 (2020: \$9,497,646). There are no formalized repayment terms for this balance. Interest on the balance is calculated on a monthly basis based on the one-month JPY LIBOR rate plus a floating rate spread paid by FRAC on its loan versus Citicorp. In 2021, the spread ranged from 0.54419% to 0.56475%.
16. There are no transactions made or other event occurring between December 31, 2021 and the date of approval of the financial statements by the Board of Directors that materially affect the financial statements.
17. Subsequent Events:
- Subsequent events were evaluated to April 27, 2022, the date the financial statements were available to be issued. No events have occurred subsequent to December 31, 2021 requiring adjustments or disclosure in these financial statements.

**FINANCIAL REASSURANCE COMPANY, LTD.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**December 31, 2021**

**Notes to Statement of Capital and Surplus**

		<u>2021</u>	<u>2020</u>
1.	(a)		
	Common Stock		
	Authorized, issued and fully paid		
	3,700 shares of par value \$100 each	\$ <u>370,000</u>	\$ <u>370,000</u>
	(b)		
	Contributed surplus		
	There is no change in contributed surplus during the relevant year.		
2.	(c)		
	Dividends paid and payable		
	There are no dividends paid or payable for the current year.		

**Notes to the Balance Sheet**

1. There are no encumbrances on cash and cash equivalents.
- 2-3. The Company has no quoted or unquoted investments.
4. The Company has no investments in and advances to affiliates.
5. Investments in mortgage loans on real estate  
There are no investments in mortgage loans on real estate.
6. Policy loans  
There are no policy loans.
7. Real estate  
There are no real estate investments.
8. Collateral loans  
There are no collateral loans.
9. Investment income due and accrued  
There is no accrued investment income.
10. Accounts and premium receivable  
There is no accounts and premium receivable.
11. Reinsurance balances receivable  
There are no reinsurance balances receivable.
12. Funds held by ceding reinsurers  
There are no funds held by ceding reinsurers.

**FINANCIAL REASSURANCE COMPANY, LTD.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**December 31, 2021**

**Notes to the Balance Sheet** (continued)

13. (a) The Company has structured the modeled notional schedule derivative contracts so that the cash flows will closely mirror the cash flows under the reinsurance agreements. The Company has recorded premiums due under the modeled notional schedule derivative contracts together with the change in fair value of the derivative contracts. For the year ended December 31, 2021, the Company recorded premium paid under the derivative contracts of \$(25,124) (2020: \$(25,234)), together with a change in the fair value of the derivative contracts of \$(6,109) (2020: \$(1,574,051)). A total of \$(31,233) (2020: \$(1,599,285)) was recorded associated with the derivative contracts. This amount has been included in Line 24 of the condensed statement of income, along with a change in fair value of the reinsurance treaties of \$17,640 (2020: \$1,551,711).

Under the fair value accounting model, the Company estimates that the fair value of the derivative contracts is an asset of approximately \$6,581,618 at December 31, 2021 (2020: \$6,575,509) and the fair value of the reinsurance treaties is a liability of approximately \$6,627,725 (2020: \$6,645,365). The asset and liability are recorded under line 13(a) of the condensed Balance Sheet under sundry assets and line 36(e) under sundry liabilities respectively. The \$6,581,618 (2020: \$6,575,509) asset under the derivative contract represents the present value of future expected hedge benefits payable by CFPI and CBNA to the Company less the present value of future hedge premiums payable by the Company to CFPI and CBNA.

(b) (i) the Company hedges its market risks with CFPI and CBNA via modeled notional schedule derivative contracts. These derivative contracts were designed as a portfolio of put options whose collective terms replicate the terms of the reinsurance agreements, with the cash flows under the derivative contracts closely mirroring those under the reinsurance agreements. The deterministic modeled notional profiles for the derivative contracts have been structured using expected mortality and lapse projections based on projections assumptions provided by an independent actuary engaged by the Company.

(b) (ii) <b>Description</b>	<b>Market Value USD</b>	<b>Notional Amount (USD)</b>
Treaty 7	6,627,725	46,042,291

14. Letters of credit, guarantees and other  
There are no letters of credit or guarantees.
16. Unearned premium reserve  
There are no unearned premium reserves.
17. Loss and loss expense provisions  
There are no loss and loss expense provisions.
20. Reserves for reported claims  
There are no reported claims.
21. Reserves for unreported claims  
There are no unreported claims.
22. Policy reserves – life  
There are no life reserves.

**FINANCIAL REASSURANCE COMPANY, LTD.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**December 31, 2021**

**Notes to the Balance Sheet** (continued)

23. Policy reserves accident and health

There are no reserves for accident and health.

24. Policyholders' funds on deposit

There are no policyholders' funds on deposit.

25. Liability for future policyholders dividends

There are no policyholder dividends on any contract written.

26. Other insurance reserves – long term

There are no other insurance reserves – long term.

27. Total long-term business insurance reserves

There are no restricted assets that are held as security or collateral against a liability or contingent liability.

28. Insurance and reinsurance balances payable

No amounts are payable to affiliates.

29. Commissions, expenses, fees and taxes payable

There are no commissions, expenses, fees and taxes payable.

30. Loans and notes payable

There are no loans and notes payable.

31. (a) Under current Bermuda law the Company is not required to pay taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of such taxes being imposed, the Company will be exempted from taxation until March 28, 2035.

(b) The Company has filed a 953(d) election with the U.S. Department of the Treasury to be treated and taxed as a domestic corporation for United States tax purposes. The Company waives all benefits under any treaty between the U.S. and Bermuda. The election was effective January 1, 2010.

(c) The Company accounts for income taxes in accordance with ASC 740, Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and the respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when, after consideration of all positive and negative evidence, it is not more likely than not that the Company's deferred tax assets will be realizable.

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act of 2017 ("TCJA") which, among other changes, reduced the U.S. federal tax rate from 35% to 21% beginning on January 1, 2018 and imposed a tax on undistributed and previously untaxed post-1986 foreign earnings and profits (accumulated foreign earnings). The estimated effects of enactment of TCJA are reflected in the Company's net deferred tax asset of \$27,657,119 (2020: \$27,533,988). The Company has provided a full valuation allowance for these deferred tax assets as of December 31, 2021.

**FINANCIAL REASSURANCE COMPANY, LTD.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**December 31, 2021**

**Notes to the Balance Sheet** (continued)

32. See Note 15 above.
33. Accounts payable and accrued expenses represent general and administrative expenses already incurred but not yet paid.
- 34-35. Not applicable.
36. Under Fair Value accounting for the reinsurance agreements, the reserve is equal to the fair value of a replicating portfolio of put options whose collective terms replicate the terms of the reinsurance agreements, with the cash flows under these put options closely mirroring those under the reinsurance agreements. This calculation is a market consistent approach that is often used by financial market participants to value financial instruments that are not traded in a deep liquid market and therefore reliable market prices are not available. This technique is commonly used for valuing interest, currency and equity options, as well as for preparing Fair Value liability calculations for these types of liabilities.

The Company is exposed to losses on the contracts if the actual lapse or mortality experience develops unfavorably compared to the assumptions used to establish the modeled notional schedule on the derivative contracts. The Company could also be exposed to losses if the performance of the fund investments referenced by the derivative contracts does not match the performance of the actual fund investments held by the variable annuity contracts.

The Company's payment obligations under the reinsurance agreements with the cedent are ultimately protected by guarantees provided by Citigroup, Inc. (the ultimate parent of the Company).

The fair values of derivative contracts and the related reinsurance treaties is estimated using Citigroup's internally developed models based on observable and unobservable inputs. While management believe these valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies and assumptions to determine fair value could result in a different estimate on the reporting date.

37. Not applicable.

**Notes to the Income Statement**

6. Not applicable
15. Not applicable
32. Not applicable
36. Not applicable