

**GIBRALTAR REINSURANCE COMPANY LTD.**

Financial Statements and  
Report of Independent Auditors

As of December 31, 2021 and 2020

## Table of Contents

	<u>Page</u>
Report of Independent Auditors	3
Statements of Financial Position as of December 31, 2021 and 2020	5
Statements of Operations and Comprehensive Income for the years ended December 31, 2021 and 2020	6
Statements of Equity for the years ended December 31, 2021 and 2020	7
Statements of Cash Flows for the years ended December 31, 2021 and 2020	8
Notes to Financial Statements	9



## **Report of Independent Auditors**

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

### ***Opinion***

We have audited the accompanying financial statements of Gibraltar Reinsurance Company Ltd. (the “Company”), which comprise the statements of financial position as of December 31, 2021, and December 31, 2020, and the related statements of operations and comprehensive income, of equity and of cash flows for the years then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the result of its operations and its cash flows for the years then ended December 31, 2021 and 2020, in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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 Auditors’ Responsibilities for the Audit of the 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 opinion.

### ***Responsibilities of Management 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, and for 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.

In preparing the 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 financial statements are available to be issued.

### ***Auditors’ Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ 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 judgment made by a reasonable user based on the financial statements.



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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 financial statements.
- Obtain an understanding of internal control 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 financial statements.
- Conclude whether, in our judgment, 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.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP

New York, New York  
April 26, 2022

**GIBRALTAR REINSURANCE COMPANY LTD.**

**Statements of Financial Position**

**As of December 31, 2021 and 2020 (in thousands, except share amounts)**

	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Fixed maturities, available-for-sale, at fair value (allowance for credit losses: 2021 - \$0; 2020 - \$0) (amortized cost: 2021 - \$9,300,511; 2020 - \$5,637,683)	\$ 9,286,679	\$ 5,666,433
Other invested assets	0	31,145
Total investments	9,286,679	5,697,578
Cash and cash equivalents	55,061	27,376
Accrued investment income	34,414	18,068
Reinsurance recoverables	78,363	60,869
Other assets	158	208
<b>TOTAL ASSETS</b>	<b>\$ 9,454,675</b>	<b>\$ 5,804,099</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Future policy benefits (includes \$8,722,071 and \$5,338,399 measured at fair value under the fair value option as of December 31, 2021 and 2020, respectively) (1)	\$ 8,726,662	\$ 5,338,399
Other liabilities	31,782	2,399
Total liabilities	8,758,444	5,340,798
<b>EQUITY</b>		
Common stock (\$1 par value; 250,000 shares authorized, issued and outstanding)	250	250
Additional paid-in capital	190,300	190,300
Accumulated other comprehensive income (loss)	(62,403)	38,076
Retained earnings	568,084	234,675
Total equity	696,231	463,301
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 9,454,675</b>	<b>\$ 5,804,099</b>

(1) See Note 5 for more details.

**See Notes to Financial Statements**

**GIBRALTAR REINSURANCE COMPANY LTD.**

**Statements of Operations and Comprehensive Income  
Years Ended December 31, 2021 and 2020 (in thousands)**

	<u>2021</u>	<u>2020</u>
<b>REVENUES</b>		
Net investment income	\$ 68,490	\$ 28,186
Realized investment gains (losses), net	(81,926)	(27,864)
Other income (loss)	1,011	(432)
Total revenues	<u>(12,425)</u>	<u>(110)</u>
<b>BENEFITS AND EXPENSES</b>		
Changes in fair value of reinsurance balance	(353,620)	(278,269)
General, administrative and other expenses	7,786	4,302
Total benefits and expenses	<u>(345,834)</u>	<u>(273,967)</u>
<b>NET INCOME (LOSS)</b>	<u>\$ 333,409</u>	<u>\$ 273,857</u>
Other comprehensive income (loss):		
Foreign currency translation adjustments	(54,053)	19,817
Net unrealized investment gains (losses)	(42,582)	(54,498)
Non-performance risk reserve	(3,844)	(154)
<b>COMPREHENSIVE INCOME (LOSS)</b>	<u><u>\$ 232,930</u></u>	<u><u>\$ 239,022</u></u>

See Notes to Financial Statements

**GIBRALTAR REINSURANCE COMPANY LTD.**

**Statements of Equity  
Years Ended December 31, 2021 and 2020 (in thousands)**

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Equity</b>
<b>BALANCE, DECEMBER 31, 2019</b>	\$ 250	\$ 190,300	\$ (39,182)	\$ 72,911	\$ 224,279
Capital contributions from parent	0	0			0
Comprehensive income:					
Net income (loss)			273,857		273,857
Other comprehensive income (loss)				(34,835)	(34,835)
Total comprehensive income (loss)					239,022
<b>BALANCE, DECEMBER 31, 2020</b>	250	190,300	234,675	38,076	463,301
Capital contributions from parent	0	0			0
Comprehensive income:					
Net income (loss)			333,409		333,409
Other comprehensive income (loss)				(100,479)	(100,479)
Total comprehensive income (loss)					232,930
<b>BALANCE, DECEMBER 31, 2021</b>	<u>\$ 250</u>	<u>\$ 190,300</u>	<u>\$ 568,084</u>	<u>\$ (62,403)</u>	<u>\$ 696,231</u>

See Notes to Financial Statements

**GIBRALTAR REINSURANCE COMPANY LTD.**

**Statements of Cash Flows  
Years Ended December 31, 2021 and 2020 (in thousands)**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 333,409	\$ 273,857
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Realized investment (gains) losses, net	81,926	27,864
Amortization	(1,400)	(828)
Change in:		
Future policy benefits	1,888,522	610,924
Derivative instruments, net	120	(39,225)
Other, net	(41,823)	(26,509)
<b>Cash flows from (used in) operating activities</b>	<u>2,260,754</u>	<u>846,083</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	1,346,217	503,012
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(3,578,268)	(1,349,637)
Derivative instruments, net	(7,165)	(112)
<b>Cash flows from (used in) investing activities</b>	<u>(2,239,216)</u>	<u>(846,737)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Other, net	(38)	27
<b>Cash flows from (used in) financing activities</b>	<u>(38)</u>	<u>27</u>
Effect of foreign exchange rate changes on cash balances	6,185	(647)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	27,685	(1,274)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	27,376	28,650
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 55,061</u>	<u>\$ 27,376</u>

**Significant Non-Cash Transactions**

In January 2021 and 2020, the Company received invested assets of \$2,193 million and \$2,063 million, respectively, from The Gibraltar Life Insurance Company, Ltd. and The Prudential Life Insurance Company, Ltd. See Note 8 for additional information.

**See Notes to Financial Statements**



**GIBRALTAR REINSURANCE COMPANY LTD.**  
**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.

Since 2019, the Company has 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.

Since 2019, the Company has 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 generally accepted accounting principles in the United States of America ("U.S. GAAP").

***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 a majority of future policy benefits and valuation of investments.

***COVID-19***

Since the first quarter of 2020, the novel coronavirus ("COVID-19") has resulted in extreme stress and disruption in the global economy and financial markets. While markets have rebounded, the pandemic has adversely impacted, and may continue to adversely impact, the Company's results of operations, financial condition and cash flows. Due to the highly uncertain nature of these conditions, it is not possible to estimate the ultimate impacts at this time. The risks may have manifested, and may continue to manifest, in the Company's financial statements in the areas of, among others, i) insurance liabilities and related balances: potential changes to assumptions regarding investment returns, mortality, morbidity and policyholder behavior which are reflected in our insurance liabilities and certain related balances and; ii) investments: increased risk of loss on our investments due to default or deterioration in credit quality or value. The Company cannot predict what impact the COVID-19 pandemic will ultimately have on its businesses.

**2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS**

**ASSETS**

***Fixed maturities, available-for-sale, at fair value*** ("AFS debt securities") are comprised of bonds that are carried at fair value. See Note 5 for additional information regarding the determination of fair value. The purchased cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity or, if applicable, call date.

AFS debt securities, where fair value is below amortized cost, are reviewed quarterly to determine whether the amortized cost basis of the security is recoverable. For mortgage-backed AFS debt securities, a credit impairment will be recognized in

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

earnings as an allowance for credit losses and reported in “Realized investment gains (losses), net,” to the extent the amortized cost exceeds the net present value of projected future cash flows (the “net present value”) for the security.

For all other AFS debt securities, qualitative factors are first considered including, but not limited to, the extent of the decline and the reasons for the decline in value (e.g., credit events, currency or interest-rate related, including general credit spread widening), and the financial condition of the issuer. If analysis of these qualitative factors results in the security needing to be impaired, a credit impairment will be recognized in earnings as an allowance for credit losses and reported in “Realized investment gains (losses), net,” to the extent the amortized cost exceeds the net present value of projected future cash flows (the “net present value”) for the security.

A credit impairment recorded cannot exceed the difference between the amortized cost and fair value of the respective security. The net present value used to measure a credit impairment is calculated by discounting the Company’s best estimate of projected future cash flows at the effective interest rate implicit in the AFS debt security at the date of acquisition. Once the Company has deemed all or a portion of the amortized cost uncollectible, the allowance is removed from the balance sheet by writing down the amortized cost basis of the AFS debt security. Any amount of an AFS debt security’s change in fair value not recorded as an allowance for credit losses will be recorded in Other Comprehensive Income (loss) (“OCI”).

When an AFS debt security’s fair value is below amortized cost and the Company has the intent to sell the AFS debt security, or it is more likely than not the Company will be required to sell the AFS debt security before its anticipated recovery, the amortized cost basis of the AFS debt security is written down to fair value and any previously recognized allowance is reversed. The write-down is reported in “Realized investment gains (losses), net.”

Interest income, including amortization of premium and accretion of discount, are included in “Net investment income” under the effective yield method. Prepayment premiums are also included in “Net investment income.”

For high credit quality mortgage-backed AFS debt securities (those rated AA or above), the amortized cost and effective yield of the securities are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. The adjustments to amortized cost are recorded as a charge or credit to “Net investment income” in accordance with the retrospective method.

For mortgage-backed AFS debt securities rated below AA, the effective yield is adjusted prospectively for any changes in the estimated timing and amount of cash flows unless the investment is purchased with credit deterioration or an allowance is currently recorded for the respective security. If an investment is impaired, any changes in the estimated timing and amount of cash flows will be recorded as the credit impairment, as opposed to a yield adjustment. If the asset is purchased with credit deterioration (or previously impaired), the effective yield will be adjusted if there are favorable changes in cash flows subsequent to the allowance being reduced to zero.

For mortgage-backed AFS debt securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including interest rate and prepayment assumptions based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. These assumptions can significantly impact income recognition, unrealized gains and losses recorded in OCI, and the amount of impairment recognized in earnings. The payment priority of the respective security is also considered. For all other AFS debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company has developed these estimates using information based on its historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings and other data relevant to the collectability of a security, such as the general payment terms of the security and the security’s position within the capital structure of the issuer.

The associated unrealized gains and losses are included in "Accumulated other comprehensive income (loss)" ("AOCI").

**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.

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

**Cash and cash equivalents** includes 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. These assets are generally carried at fair value or amortized cost which approximates fair value.

**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** 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 a majority of 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 years ended December 31, 2021 and December 31, 2020; and (3) Policyholders' benefits recognized when incurred. Changes in a majority of future policy benefits are recorded when premiums are recognized using a fair value methodology.

**Realized investment gains (losses), net** includes realized gains or losses from sales and maturities of investments, changes to the allowance for credit losses, other impairments and derivative gains or losses. The derivative gains or losses include the impact of maturities, terminations and changes in fair value of the derivative instruments. Realized investment gains (losses) from the sales of securities are generally calculated using the specific identification method.

## **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.

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

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 and 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 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 the majority of its reinsurance transactions. The fair value is reported in "Future policy benefits". 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. Reinsurance recoverables are reported net of the current expected credit loss ("CECL") allowance. The CECL allowance considers the credit quality of the reinsurance counterparty and is generally determined based on the probability of default and loss given default assumptions, after considering any applicable collateral arrangements. The CECL allowance does not apply to reinsurance recoverables with affiliated counterparties under common control. Additions to or releases of the allowance are reported in "Changes in fair value of reinsurance balance".

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

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

**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 ASUs to the FASB Accounting Standards Codification. The Company considers the applicability and impact of all ASUs. There were no ASUs adopted during the current year. ASUs issued but not adopted as of December 31, 2021, and as of the date that these financial statements were available to be issued were assessed and determined to be either not applicable or not material.

**3. INVESTMENTS**

**Fixed Maturity Securities**

The following tables set forth the composition of fixed maturity securities, as of the dates indicated:

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
	(in thousands)				
<b>Fixed maturities, available-for-sale:</b>					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 132,067	\$ 22,736	\$ 3	\$ 0	\$ 154,800
Obligations of U.S. states and their political subdivisions	54,798	240	669	0	54,369
Foreign government bonds(1)	5,814,551	16,372	82,064	0	5,748,859
U.S. public corporate securities	2,135,495	46,761	21,734	0	2,160,522
U.S. private corporate securities	295,456	7,467	2,292	0	300,631
Foreign public corporate securities	804,759	1,406	2,017	0	804,148
Foreign private corporate securities	10,384	103	0	0	10,487
Commercial mortgage-backed securities	44,943	0	219	0	44,724
Residential mortgage-backed securities	8,058	81	0	0	8,139
<b>Total fixed maturities, available-for-sale</b>	<b>\$ 9,300,511</b>	<b>\$ 95,166</b>	<b>\$ 108,998</b>	<b>\$ 0</b>	<b>\$ 9,286,679</b>

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

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

December 31, 2020

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
	(in thousands)				
<b>Fixed maturities, available-for-sale:</b>					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 116,533	\$ 22,083	\$ 0	\$ 0	\$ 138,616
Obligations of U.S. states and their political subdivisions	22,826	685	0	0	23,511
Foreign government bonds(1)	4,079,330	27,317	65,063	0	4,041,584
U.S. public corporate securities	446,493	24,450	3,307	0	467,636
U.S. private corporate securities	298,273	23,094	175	0	321,192
Foreign public corporate securities	652,402	1,163	2,351	0	651,214
Foreign private corporate securities	10,384	605	0	0	10,989
Residential mortgage-backed securities	11,442	249	0	0	11,691
Total fixed maturities, available-for-sale	<u>\$ 5,637,683</u>	<u>\$ 99,646</u>	<u>\$ 70,896</u>	<u>\$ 0</u>	<u>\$ 5,666,433</u>

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

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

The following tables set forth the fair value and gross unrealized losses on available-for-sale fixed maturity securities without an allowance for credit 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 dates indicated:

	December 31, 2021					
	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)					
<b>Fixed maturities, available-for-sale:</b>						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 27,002	\$ 3	\$ 0	\$ 0	\$ 27,002	\$ 3
Obligations of U.S. states and their political subdivisions	33,787	669	0	0	33,787	669
Foreign government bonds	1,929,403	8,288	1,810,293	73,776	3,739,696	82,064
U.S. public corporate securities	933,391	14,312	148,639	7,422	1,082,030	21,734
U.S. private corporate securities	102,943	1,949	8,843	343	111,786	2,292
Foreign public corporate securities	281,368	841	92,014	1,176	373,382	2,017
Commercial mortgage-backed securities	44,724	219	0	0	44,724	219
Total fixed maturities, available-for-sale	<u>\$3,352,618</u>	<u>\$ 26,281</u>	<u>\$2,059,789</u>	<u>\$ 82,717</u>	<u>\$5,412,407</u>	<u>\$ 108,998</u>

	December 31, 2020					
	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)					
<b>Fixed maturities, available-for-sale:</b>						
Foreign government bonds	\$2,336,613	\$ 64,990	\$ 92,670	\$ 73	\$2,429,283	\$ 65,063
U.S. public corporate securities	71,442	3,307	0	0	71,442	3,307
U.S. private corporate securities	6,752	175	0	0	6,752	175
Foreign public corporate securities	146,717	2,271	42,702	80	189,419	2,351
Total fixed maturities, available-for-sale	<u>\$2,561,524</u>	<u>\$ 70,743</u>	<u>\$ 135,372</u>	<u>\$ 153</u>	<u>\$2,696,896</u>	<u>\$ 70,896</u>

As of December 31, 2021 and 2020, the gross unrealized losses on fixed maturity available-for-sale securities without an allowance were composed of \$108.9 million and \$70.2 million, respectively, related to “1” highest quality or “2” high quality securities based on the National Association of Insurance Commissioners (“NAIC”) or equivalent rating and \$0.0 million and \$0.6 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of December 31, 2021, the \$82.7 million of gross unrealized losses of twelve months or more were concentrated in foreign government bonds and in the Company’s corporate securities within the finance and utility sectors. As of December 31, 2020, the \$0.2 million of gross unrealized losses of twelve months or more were concentrated in the Company’s corporate securities within the finance and utility sectors and in foreign government bonds.

In accordance with its policy described in Note 2, the Company concluded that an adjustment to earnings for credit losses related to these fixed maturity securities was not warranted at December 31, 2021 and 2020. This conclusion was based on a detailed analysis of the underlying credit and cash flows on each security. Gross unrealized losses are primarily attributable to increases in interest rates and general credit spread widening. As of December 31, 2021 and 2020, the Company did not intend to sell these securities, and it was not more likely than not that the Company would be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

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

	December 31, 2021	
	Amortized Cost	Fair Value
	(in thousands)	
<b>Fixed maturities, available-for-sale:</b>		
Due in one year or less	\$ 43,813	\$ 43,802
Due after one year through five years	1,683,443	1,683,460
Due after five years through ten years	1,429,448	1,438,462
Due after ten years	6,090,806	6,068,092
Commercial mortgage-backed securities	44,943	44,724
Residential mortgage-backed securities	8,058	8,139
Total	\$ 9,300,511	\$ 9,286,679

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Commercial mortgage-backed and residential mortgage-backed securities are shown separately in the table above, as they do not have a single maturity date.

The following table sets forth the sources of fixed maturity proceeds and related investment gains (losses), as well as losses on write-downs and the allowance for credit losses of fixed maturities, for the years indicated:

	December 31, 2021	December 31, 2020
	(in thousands)	
<b>Fixed maturities, available-for-sale:</b>		
Proceeds from sales	\$ 1,250,855	\$ 458,235
Proceeds from maturities/prepayments	95,362	44,777
Gross investment gains from sales and maturities	1,760	2,912
Gross investment losses from sales and maturities	(16,048)	(1,648)
Write-downs recognized in earnings	0	0
(Addition to) release of allowance for credit losses	0	0

For both the years ended December 31, 2021 and 2020, there were no activity in the allowance for credit losses for fixed maturity securities.

See Note 2 for additional information about the Company's methodology for developing our allowance and expected losses.

The Company did not have any fixed maturity securities purchased with credit deterioration as of December 31, 2021 and 2020.

**Other Invested Assets**

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

	December 31, 2021	December 31, 2020
	(in thousands)	
Derivative instruments	\$ 0	\$ 31,145
Total other invested assets	\$ 0	\$ 31,145



**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

***Accrued Investment Income***

The following table sets forth the composition of "Accrued investment income" as of the dates indicated:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in thousands)	
Fixed maturities	\$ 34,414	\$ 18,053
Cash and cash equivalents	0	15
Total accrued investment income	<u>\$ 34,414</u>	<u>\$ 18,068</u>

There were no write-downs on accrued investment income for the years ended December 31, 2021 and 2020.

***Net Investment Income***

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

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in thousands)	
Fixed maturities, available-for-sale	\$ 73,175	\$ 30,781
Other invested assets	(103)	(103)
Cash and cash equivalents	(8)	49
Gross investment income	73,064	30,727
Less: investment expenses	(4,574)	(2,541)
Net investment income	<u>\$ 68,490</u>	<u>\$ 28,186</u>

***Realized Investment Gains (Losses), Net***

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

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in thousands)	
Fixed maturities, available-for-sale	\$ (14,288)	\$ 1,264
Derivatives	(67,638)	(29,128)
Realized investment gains (losses), net	<u>\$ (81,926)</u>	<u>\$ (27,864)</u>

***Net Unrealized Gains (Losses) on Investments within AOCI***

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

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in thousands)	
Fixed maturity securities, available-for-sale	\$ (13,832)	\$ 28,750
Net unrealized gains (losses) on investments	<u>\$ (13,832)</u>	<u>\$ 28,750</u>

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

**4. DERIVATIVES AND HEDGING**

*Types of Derivative and Hedging Instruments*

*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 and swaps, 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.

Under currency swaps, the Company agrees with counterparties to exchange, at specified intervals, the difference between one currency and another at an exchange rate and calculated by reference to an agreed principal amount. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party.

*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.

Primary Underlying Risk/Instrument Type	December 31, 2021			December 31, 2020		
	Gross Notional	Fair Value		Gross Notional	Fair Value	
		Assets	Liabilities		Assets	Liabilities
(in thousands)						
<b>Derivative Instruments Not Qualifying as Hedge Accounting Instruments:</b>						
<b>Interest Rate</b>						
Interest Rate Swaps	\$1,469,199	\$ 29,774	\$ (41,124)	\$1,101,748	\$ 52,028	\$ (12,971)
<b>Foreign Currency</b>						
Foreign Currency Forwards	0	0	0	396,080	0	(7,123)
<b>Currency/Interest Rate</b>						
Foreign Currency Swaps	1,698	0	(16,460)	1,893	701	(1,490)
<b>Total Derivative Instruments(1)</b>	<u>\$1,470,897</u>	<u>\$ 29,774</u>	<u>\$ (57,584)</u>	<u>\$1,499,721</u>	<u>\$ 52,729</u>	<u>\$ (21,584)</u>

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

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

**Offsetting Assets and Liabilities**

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

December 31, 2021					
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
(in thousands)					
<b>Offsetting of Financial Assets:</b>					
Derivative instruments(1)	\$ 29,774	\$ (29,774)	\$ 0	\$ 0	\$ 0
Total assets	\$ 29,774	\$ (29,774)	\$ 0	\$ 0	\$ 0
<b>Offsetting of Financial Liabilities:</b>					
Derivative instruments(1)	\$ (57,584)	\$ 29,774	\$ (27,810)	\$ 27,810	\$ 0
Total liabilities	\$ (57,584)	\$ 29,774	\$ (27,810)	\$ 27,810	\$ 0

December 31, 2020					
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
(in thousands)					
<b>Offsetting of Financial Assets:</b>					
Derivative instruments(1)	\$ 52,729	\$ (21,584)	\$ 31,145	\$ (31,145)	\$ 0
Total assets	\$ 52,729	\$ (21,584)	\$ 31,145	\$ (31,145)	\$ 0
<b>Offsetting of Financial Liabilities:</b>					
Derivative instruments(1)	\$ 21,584	\$ (21,584)	\$ 0	\$ 0	\$ 0
Total liabilities	\$ 21,584	\$ (21,584)	\$ 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.

	Year Ended December 31, 2021		Year Ended December 31, 2020	
	Realized Investment Gains (Losses)			
	(in thousands)			
<b>Derivative Instruments Not Qualifying as Hedge Accounting Instruments:</b>				
Interest Rate	\$	(46,885)	\$	(30,440)
Currency		(801)		2,174
Currency/Interest Rate		(19,952)		(862)
Total non-qualifying hedges		(67,638)		(29,128)
<b>Total</b>	\$	(67,638)	\$	(29,128)

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

***Credit Derivatives***

The Company has no exposure from credit derivative positions where it has written or purchased credit protection as of December 31, 2021 and 2020.

***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. The Company's Level 1 assets and liabilities primarily include certain cash equivalents.

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 and commercial and residential mortgage-backed securities) and OTC derivatives.

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 certain U.S. corporate private securities and majority of 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.

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

	December 31, 2021				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in thousands)				
<b>Fixed maturities, available-for-sale:</b>					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 154,800	\$ 0	\$ 0	\$ 154,800
Obligations of U.S. states and their political subdivisions	0	54,369	0	0	54,369
Foreign government bonds	0	5,748,859	0	0	5,748,859
U.S. corporate public securities	0	2,160,522	0	0	2,160,522
U.S. corporate private securities	0	299,681	950	0	300,631
Foreign corporate public securities	0	804,148	0	0	804,148
Foreign corporate private securities	0	10,487	0	0	10,487
Commercial mortgage-backed securities	0	44,724	0	0	44,724
Residential mortgage-backed securities	0	8,139	0	0	8,139
Subtotal	0	9,285,729	950	0	9,286,679
Cash equivalents	0	0	0	0	0
Other invested assets	0	29,774	0	(29,774)	0
Total assets	\$ 0	\$ 9,315,503	\$ 950	\$ (29,774)	\$ 9,286,679
Future policy benefits	\$ 0	\$ 0	\$ 8,722,071	\$ 0	\$ 8,722,071
Other liabilities	0	57,584	0	(29,774)	27,810
Total liabilities	\$ 0	\$ 57,584	\$ 8,722,071	\$ (29,774)	\$ 8,749,881

	December 31, 2020				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in thousands)				
<b>Fixed maturities, available-for-sale:</b>					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 138,616	\$ 0	\$ 0	\$ 138,616
Obligations of U.S. states and their political subdivisions	0	23,511	0	0	23,511
Foreign government bonds	0	4,041,584	0	0	4,041,584
U.S. corporate public securities	0	467,636	0	0	467,636
U.S. corporate private securities	0	320,198	994	0	321,192
Foreign corporate public securities	0	651,214	0	0	651,214
Foreign corporate private securities	0	10,989	0	0	10,989
Commercial mortgage-backed securities	0	0	0	0	0
Residential mortgage-backed securities	0	11,691	0	0	11,691
Subtotal	0	5,665,439	994	0	5,666,433
Cash equivalents	9,691	0	0	0	9,691
Other invested assets	0	52,729	0	(21,584)	31,145
Total assets	\$ 9,691	\$ 5,718,168	\$ 994	\$ (21,584)	\$ 5,707,269
Future policy benefits	\$ 0	\$ 0	\$ 5,338,399	\$ 0	\$ 5,338,399
Other liabilities	0	21,584	0	(21,584)	0
Total liabilities	\$ 0	\$ 21,584	\$ 5,338,399	\$ (21,584)	\$ 5,338,399

(1) "Netting" amounts represent cash collateral of \$0 million as of both December 31, 2021 and 2020.

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

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.

**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 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 linked to an index are valued using models that utilize actively quoted or observable market inputs, including the secured overnight financing rate, 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 to value a majority of future policy benefits. As a result, the liabilities are measured at fair value at each financial reporting date reported within "Future policy benefits".

The Company calculates the fair value of majority 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 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 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.

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

**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.

December 31, 2021						
Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Impact of Increase in Input on Fair Value(1)	
(in thousands)						
<b>Liabilities:</b>						
Future policy benefits(2)	\$ 8,722,071	Discounted cash flow	Lapse rate(3)	0 %	50 %	Decrease
			Morbidity rate(4)	0 %	100 %	Increase
			Mortality rate(5)	0 %	100 %	Decrease
			Target capital level(6)	200 %	200 %	Increase
			Cost of capital(7)	7 %	8.5 %	Increase
December 31, 2020						
Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Impact of Increase in Input on Fair Value(1)	
(in thousands)						
<b>Liabilities:</b>						
Future policy benefits(2)	\$ 5,338,399	Discounted cash flow	Lapse rate(3)	0 %	50 %	Decrease
			Morbidity rate(4)	0 %	100 %	Increase
			Mortality rate(5)	0 %	100 %	Decrease
			Target capital level(6)	200 %	200 %	Increase
			Cost of capital(7)	7 %	8.5 %	Increase

- (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.
- (6) Target capital level is set at the Company level.
- (7) Cost of capital rates vary by division.

**Changes in Level 3 Assets and Liabilities** – The changes in fair value of Level 3 assets relating to purchases of corporate securities were \$0 million and \$1 million for the years ended December 31, 2021 and 2020, respectively. The changes in fair value of Level 3 liabilities relating to issuances of future policy benefits were \$4,454 million and \$3,082 million for the years ended December 31, 2021 and 2020, respectively.

**Transfers** – 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.

There have been no transfers into or out of Level 3 for both the years ended December 31, 2021 and 2020.

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

**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 Statements of Financial Position. In some cases, as described below, the carrying amount equals or approximates fair value.

	December 31, 2021				
	Fair Value				Carrying Amount
	Level 1	Level 2	Level 3	Total	Total
	(in thousands)				
<b>Assets:</b>					
Cash and cash equivalents	\$ 55,061	\$ 0	\$ 0	\$ 55,061	\$ 55,061
Accrued investment income	0	34,414	0	34,414	34,414
Other assets	0	237	0	237	237
<b>Total assets</b>	<b>\$ 55,061</b>	<b>\$ 34,651</b>	<b>\$ 0</b>	<b>\$ 89,712</b>	<b>\$ 89,712</b>
<b>Liabilities:</b>					
Other liabilities	\$ 0	\$ 4,075	\$ 0	\$ 4,075	\$ 4,075
<b>Total liabilities</b>	<b>\$ 0</b>	<b>\$ 4,075</b>	<b>\$ 0</b>	<b>\$ 4,075</b>	<b>\$ 4,075</b>
	December 31, 2020(1)				
	Fair Value				Carrying Amount
	Level 1	Level 2	Level 3	Total	Total
	(in thousands)				
<b>Assets:</b>					
Cash and cash equivalents	\$ 17,685	\$ 0	\$ 0	\$ 17,685	\$ 17,685
Accrued investment income	0	18,068	0	18,068	18,068
Other assets	0	86	0	86	86
<b>Total assets</b>	<b>\$ 17,685</b>	<b>\$ 18,154</b>	<b>\$ 0</b>	<b>\$ 35,839</b>	<b>\$ 35,839</b>
<b>Liabilities:</b>					
Other liabilities	\$ 0	\$ 2,345	\$ 0	\$ 2,345	\$ 2,345
<b>Total liabilities</b>	<b>\$ 0</b>	<b>\$ 2,345</b>	<b>\$ 0</b>	<b>\$ 2,345</b>	<b>\$ 2,345</b>

(1) Prior period amounts have been updated to conform to current period presentation.

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 Other Assets***

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 and other assets that meet the definition of financial instruments.

***Reinsurance Recoverables***

Reinsurance recoverables include corresponding receivables associated with reinsurance arrangements. See Note 6 for additional information about the Company's reinsurance arrangements.

***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.



**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

**6. REINSURANCE**

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

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

	<u>2021</u>	<u>2020</u>
	(in thousands)	
Reinsurance recoverables	\$ 78,363	\$ 60,869
Future policy benefits	\$ 8,726,662	\$ 5,338,399

Significant effects of reinsurance amounts included in the Company's Statements of Operations and Comprehensive Income were as follows:

	<u>Year Ended December 31, 2021</u>	<u>Year Ended December 31, 2020</u>
	(in thousands)	
<b>Changes in fair value of reinsurance balance</b>		
Reinsurance assumed(1)	\$ (353,644)	\$ (278,280)
Reinsurance ceded	24	11
Net changes in fair value of reinsurance balance	<u>\$ (353,620)</u>	<u>\$ (278,269)</u>

(1) Includes gains (losses) the Company recognized as a result of reinsurance agreements entered into during the years ended December 31, 2021 and 2020.

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

	<u>2021</u>	<u>2020</u>
	(in thousands)	
Assumed gross life insurance face amount in force	\$ 9,433,595	\$ 2,667,585
Reinsurance ceded	(13,217)	(5,805)
Net life insurance face amount in force	<u>\$ 9,420,378</u>	<u>\$ 2,661,780</u>

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 both January 2020 and 2021, the Company entered into an agreement with POJ to assume an additional 30% quota share of the previously assumed block.

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. In both January 2020 and 2021, the Company entered into an agreement with Gibraltar Life to assume an additional 30% quota share of the previously assumed block.

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

In January 2020, the Company entered into reinsurance agreements with Gibraltar Life to assume a 100% quota share of certain USD-denominated single-premium fixed annuities products.

**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.

In January 2020, the Company entered into reinsurance agreements with PGFL to assume a 100% quota share of certain USD-denominated single-premium fixed annuities products.

**Third Parties**

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

**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 Act. Every Class E insurer shall submit to the BMA 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 ("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 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***

Through 2021 and 2020, the Company had no returns of capital.

***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.

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

***Dividends***

Through 2021 and 2020, the Company did not pay any dividends.

***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 Act. Further, the Company may not distribute a dividend to any person other than a policyholder 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 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 the 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, 2021 and 2020, Gibraltar Re had 250,000 shares of common stock authorized, issued and outstanding. The total shares of common stock outstanding are 100% owned by PIH, 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 Statements of Operations and Comprehensive Income. The balance of and changes in each component of AOCI as of and for the years ended December 31, 2021 and 2020, are as follows:

	<b>Accumulated Other Comprehensive Income (Loss)</b>			
	<b>Foreign Currency Translation Adjustment</b>	<b>NPR adjustment to Future Policy Benefits</b>	<b>Net Unrealized Investment Gains (Losses)</b>	<b>Total Accumulated Other Comprehensive Income (Loss)</b>
	<b>(in thousands)</b>			
Balance, December 31, 2019	\$ (4,090)	\$ (6,247)	\$ 83,248	\$ 72,911
Change in OCI before reclassifications	19,817	(154)	(53,234)	(33,571)
Amounts reclassified from AOCI	0	0	(1,264)	(1,264)
Balance, December 31, 2020	<u>\$ 15,727</u>	<u>\$ (6,401)</u>	<u>\$ 28,750</u>	<u>\$ 38,076</u>
Change in OCI before reclassifications	(54,053)	(3,844)	(56,870)	(114,767)
Amounts reclassified from AOCI	0	0	14,288	14,288
Balance, December 31, 2021	<u>\$ (38,326)</u>	<u>\$ (10,245)</u>	<u>\$ (13,832)</u>	<u>\$ (62,403)</u>

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

***Reclassification out of Accumulated Other Comprehensive Income (Loss)***

	Year Ended December 31, 2021	Year Ended December 31, 2020
(in thousands)		
Amounts reclassified from AOCI(1):		
Net unrealized investment gains (losses):		
Net unrealized investment gains (losses) on available-for-sale securities	\$ (14,288)	\$ 1,264
Total net unrealized investment gains (losses)(2)	(14,288)	1,264
Total reclassification for the year	\$ (14,288)	\$ 1,264

(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 available-for-sale fixed maturity securities and certain other invested assets and other assets are included in the Company's Statements of Financial Position as a component of AOCI. Changes in these amounts include reclassification adjustments to exclude from OCI those items that are included as part of "Net income (loss)" for a period that had been part of OCI in earlier periods. There are no amounts related to available-for-sale fixed maturity securities on which an allowance for credit losses has been recognized as of December 31, 2021 and 2020. The amounts for the years 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, December 31, 2019	\$ 83,248	\$ 83,248
Net unrealized investment gains (losses) on investments arising during the year	(53,234)	(53,234)
Reclassification adjustment for (gains) losses included in net income	(1,264)	(1,264)
Balance, December 31, 2020	28,750	28,750
Net unrealized investment gains (losses) on investments arising during the year	(56,870)	(56,870)
Reclassification adjustment for (gains) losses included in net income	14,288	14,288
Balance, December 31, 2021	\$ (13,832)	\$ (13,832)

**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. General and administrative support expenses related to these agreements were \$5 million and \$3 million for the years ended December 31, 2021 and 2020, respectively. These expenses are recorded as "General, administrative and other expenses" in the Statements of Operations and Comprehensive Income.

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

***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 \$5 million and \$3 million for the years ended December 31, 2021 and 2020, respectively. These expenses are recorded as "Net investment income" in the Statements of Operations and Comprehensive Income.

***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 years ended December 31, 2021 and 2020:

Affiliate	Date	Transaction	Security Type	Fair Value	Book Value
(in thousands)					
Gibraltar Life	January 2020	Transfer In	Fixed Maturities	\$ 1,490,512	\$ 1,490,512
POJ	January 2020	Transfer In	Fixed Maturities	\$ 572,195	\$ 572,195
Gibraltar Life	March 2020	Purchase	Fixed Maturities	\$ 45,504	\$ 45,504
PIISC	March 2020	Purchase	Fixed Maturities	\$ 56,110	\$ 56,110
Gibraltar Life	January 2021	Transfer In	Fixed Maturities	\$ 1,584,687	\$ 1,584,687
POJ	January 2021	Transfer In	Fixed Maturities	\$ 608,348	\$ 608,348

***Capital Contributions from Parent and Dividends***

The Company did not receive any capital contributions for the years ended December 31, 2021 and 2020.

Through December 2021 and 2020, 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.

**GIBRALTAR REINSURANCE COMPANY LTD.**  
**Notes to Financial Statements**

**10. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through April 26, 2022, the date these audited financial statements were issued. No subsequent events were identified requiring recognition or disclosure in the financial statements.