UNION HAMILTON REINSURANCE, LTD.
(A wholly-owned subsidiary of Wells Fargo & Company)

FINANCIAL STATEMENTS

As of December 31, 2021 and 2020,
and for the Years then Ended

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1000
620 S. Tryon Street
Charlotte, North Carolina 28202-1842

Independent Auditors' Report

The Board of Directors
Union Hamilton Reinsurance Ltd.:

Opinion

We have audited the financial statements of Union Hamilton Reinsurance Ltd. (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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 results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (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 audits. 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 U.S. generally accepted accounting principles, 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 that the financial statements are 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 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 GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

KPMG

- 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.

KPMG LLP

Charlotte, North Carolina
April 27, 2022

UNION HAMILTON REINSURANCE, LTD.
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BALANCE SHEETS

December 31, 2021 and 2020

($ in thousands, except par value and shares)		2021		2020
ASSETS				
Cash and cash equivalents	**$**	**696,559**	$	179,603
Total cash, cash equivalents, and restricted cash		**696,559**		179,603
Debt securities - available-for-sale	**$**	**701,180**	$	2,202,226
Reinsurance fee receivable		**10,112**		11,128
Reinsurance premiums receivable		**74,946**		82,857
Value of business acquired		**17,164**		20,007
Deferred acquisition costs		**6,517**		7,433
Affiliate receivable		**2,736**		2,674
Investment income due and accrued		**1,932**		8,364
Economic hedges - assets		**385**		—
Intercompany note receivable		**595,027**		84,147
Deferred tax asset		**106,321**		—
Other receivables		**6,905**		6,566
Total assets	**$**	**2,219,784**	$	2,605,005
LIABILITIES AND STOCKHOLDER'S EQUITY				
Liability for future policy benefits	**$**	**539,323**	$	556,158
Income taxes payable		**10,224**		58,183
Embedded derivatives liabilities		**12,189**		26,517
Affiliate payable		**143**		147
Accounts payable		**431**		877
Reinsurance payable		**1,082**		—
Deferred tax liabilities, net		—		39,140
Total liabilities		**563,392**		681,022
Stockholder's equity:				
Common stock, $1.00 par value; 1,000,000 shares authorized, issued and outstanding		**1,000**		1,000
Paid-in capital		**1,291,656**		1,291,656
Retained earnings		**357,217**		605,941
Accumulated other comprehensive income, net		**6,519**		25,386
Total stockholder's equity		**1,656,392**		1,923,983
Total liabilities and stockholder's equity	**$**	**2,219,784**	$	2,605,005

See accompanying notes to financial statements.

UNION HAMILTON REINSURANCE, LTD.
(A wholly-owned subsidiary of Wells Fargo & Company)

STATEMENTS OF INCOME

Years Ended December 31, 2021 and 2020

($ in thousands)	**2021**	2020
INCOME		
Net reinsurance premiums earned	**$ 187,173**	$ 194,222
Reinsurance fee income	**40,614**	48,645
Early termination fees- stop loss	**422**	—
Early termination fees- surplus relief	**1,731**	—
Interest income	**30,564**	57,720
Net gain (loss) on embedded derivatives	**14,328**	(9,373)
Net (loss) gain on economic hedges	**(17,605)**	2,534
Realized gain (loss) on sale of securities, net	**25,250**	(293)
Other miscellaneous income	**(428)**	15
Total income	**282,049**	293,470
BENEFITS AND EXPENSES		
Amortization of deferred acquisition costs / value of business acquired	**3,759**	4,192
Change in liability for future policy benefits and benefit expense	**(11,687)**	97,501
Early termination expense- variable annuity	**87,500**	—
Interest expense	**9**	(21)
Affiliate expense	**7,565**	11,840
General expense	**3,269**	4,837
Total benefits and expenses	**90,415**	118,349
Income before income tax expense	**191,634**	175,121
Federal and state income tax expense	**40,358**	37,308
Net income	**$ 151,276**	$ 137,813

See accompanying notes to financial statements.

UNION HAMILTON REINSURANCE, LTD.
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STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2021 and 2020

($ in thousands)		2021		2020
Net income	**$**	**151,276**	$	137,813
Other comprehensive (loss), before tax:				
Securities available for sale:				
Net unrealized gains (losses) arising during the period		**1,368**		(409)
Reclassification of net (gain) loss to net income, before tax		**(25,250)**		293
Other comprehensive (loss), before tax		**(23,882)**		(116)
Income tax (benefit) related to other comprehensive income		**(5,015)**		(24)
Other comprehensive (loss), net of tax		**(18,867)**		(92)
Total comprehensive income	**$**	**132,409**	$	137,721

See accompanying notes to financial statements.

UNION HAMILTON REINSURANCE, LTD.

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STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

December 31, 2021 and 2020

($ in thousands)	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net	Total stockholder's equity
Balance, December 31, 2019	$ 1,000	$ 1,396,656	$ 1,063,132	$ 25,478	$ 2,486,266
Cummulative change in accounting policy (1)	—	—	(4)	—	(4)
Dividends and return of capital	—	(105,000)	(595,000)	—	(700,000)
Comprehensive income:					
Net income	—	—	137,813	—	137,813
Unrealized loss on securities, net of deferred income tax benefit of $24	—	—	—	(92)	(92)
Total comprehensive income					137,721
Balance, December 31, 2020	$ 1,000	$ 1,291,656	$ 605,941	$ 25,386	$ 1,923,983
Dividends	**—**	**—**	**(400,000)**	**—**	**(400,000)**
Comprehensive income:					
Net income	**—**	**—**	**151,276**	**—**	**151,276**
Unrealized loss on securities, net of deferred income tax benefit of $5,015	**—**	**—**	**—**	**(18,867)**	**(18,867)**
Total comprehensive income					**132,409**
Balance, December 31, 2021	**$ 1,000**	**$ 1,291,656**	**$ 357,217**	**$ 6,519**	**$ 1,656,392**

(1) Effective January 1, 2020, the Company adopted ASU 2016-13 – Financial Instruments – Credit Losses (Topic326): *Measurement of Credit Losses on Financial Instruments* and related subsequent updates,

See accompanying notes to financial statements.

UNION HAMILTON REINSURANCE, LTD.

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STATEMENTS OF CASH FLOWS

December 31, 2021 and 2020

($ in thousands)		2021		2020
OPERATING ACTIVITIES				
Net income	**$**	**151,276**	$	137,813
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Deferred income taxes		**(140,446)**		(52,395)
Accretion and amortization of securities discounts and premiums, net		**486**		(298)
Provision for Debt Securities AFS Accumulated Credit Loss		**(1,265)**		1,743
Hedge revaluations		**14,702**		(18,693)
Realized loss on securities, net of OTTI		**(25,250)**		293
Changes in:				
Reinsurance fee receivable		**1,016**		2,862
Reinsurance premiums receivable		**7,911**		84
Value of business acquired/deferred acquisition costs		**3,759**		4,192
Affiliate receivable		**(62)**		716
Interest income due and accrued		**6,432**		6,207
Economic hedge assets		**(385)**		-
Other receivables		**(339)**		(28)
Liability for future policy benefits		**(16,835)**		92,700
Interest payable		**-**		(34)
Reinsurance payable		**1,082**		-
Affiliate payable		**(4)**		(477)
Accounts payable		**(446)**		652
Income taxes receivable/payable		**(47,959)**		78,448
Embedded derivative liability		**(14,328)**		9,317
Net cash (used in) provided by operating activities		**(60,655)**		263,102
INVESTING ACTIVITIES				
Proceeds from paydowns of securities		**748,557**		551,304
Purchases of securities - available-for-sale		**(109,303)**		(430,446)
Sale of securities - available-for-sale		**849,237**		21,331
Net cash provided by investing activities		**1,488,491**		142,189
FINANCING ACTIVITIES				
Intercompany note to affiliate		**(510,880)**		209,985
Cash dividends paid		**(400,000)**		(595,000)
Return of capital		**-**		(105,000)
Net cash used in financing activities		**(910,880)**		(490,015)
Net increse (decrease) in cash, cash equivalents, and restricted cash		**516,956**		(84,724)
Cash, cash equivalents and restricted cash, beginning of year		**179,603**		264,327
Cash, cash equivalents, and restricted cash, end of year	**$**	**696,559**	$	179,603
CASH PAID FOR (RECEIVED)				
Interest received on intercompany receivable from parent	**$**	**(4,650)**	**$**	(6,740)
Income taxes paid		**228,762**		11,255

See accompanying notes to financial statements.

NOTE 1: GENERAL

Union Hamilton Reinsurance, Ltd. (the Company) was incorporated in Bermuda on December 11, 2000, and is a direct, wholly-owned subsidiary of Wells Fargo & Company (Wells Fargo or Parent), a Delaware Corporation. The Company engages in reinsurance activities. Reinsurance is an arrangement under which an insurance company, the reinsurer, agrees to indemnify another insurance company, the ceding company, for all or a portion of the insurance risks underwritten by the ceding company. The Company has entered into specific transactions that are described further in Note 5 in which it reinsures annuities and certain risks associated with life insurance contracts.

On June 24, 2021, the Company paid dividends of $400,000,000 to its parent. On December 29, 2020, the Company returned $105,000,000 of capital and paid dividends of $595,000,000 to its parent.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Company's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP). To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting period and the related disclosures. Although the Company's estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that actual conditions could be better or worse than anticipated in those estimates, which could materially affect results of operations and financial condition.

All dollar amounts except per share amounts on the financial statements and tables are presented in thousands. All dollar amounts in the notes are presented in whole dollars, unless otherwise stated. Due to rounding to thousands, there can be slight differences between values on the financial statements and tables when compared to the notes.

DEBT SECURITIES

Debt securities that the Company might not hold until maturity are classified as available-for-sale (AFS) securities and reported at fair value. Unrealized gains and losses, after applicable income taxes, are reported in accumulated other comprehensive income (OCI).

Unamortized premiums and discounts are recognized in interest income over the contractual life of the security using the effective interest method, except for purchased callable debt securities carried at a premium. For purchased callable debt securities carried at a premium, the premium is amortized into interest income to the next call date using the effective interest method. As principal repayments are received on securities (e.g., mortgage-backed securities (MBS)), a proportionate amount of the related premium or discount is recognized in income so that the effective interest rate on the remaining portion of the security continues unchanged.

The Company recognizes realized gains and losses on the sale of debt securities in net gains on trading and securities within noninterest income using the specific identification method.

(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unrealized losses on AFS debt securities are driven by a number of factors, including changes in interest rates and credit spreads which impact most types of debt securities, and prepayment rates which impact MBS and collateralized loan obligations (CLO). Additional considerations for certain types of AFS debt securities include:

- Debt securities of U.S. Treasury and federal agencies, including federal agency MBS, are not impacted by credit movements given the explicit or implicit guarantees provided by the U.S. government.
- Debt securities of U.S. states and political subdivisions are most impacted by changes in the relationship between municipal and term funding credit curves rather than by changes in the credit quality of the underlying securities.
- Structured securities, such as MBS and CLO, are also impacted by changes in projected collateral losses of assets underlying the security.

For AFS debt securities where fair value is less than amortized cost basis, the Company recognizes impairment in earnings if the Company has the intent to sell the security or if it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. Impairment is recognized in net gains on trading and securities within noninterest income equal to the entire difference between the amortized cost basis, net of the allowance for credit losses (ACL), and the fair value of the AFS debt security. Following the recognition of this impairment, the AFS debt security's new amortized cost basis is fair value.

For AFS debt securities where fair value is less than amortized cost basis where we did not recognize impairment in earnings, we record an ACL as of the balance sheet date to the extent unrealized loss is due to credit losses. See the Note 3 relating to the ACL for debt securities.

Allowance for Credit Losses

The Company maintains an ACL for AFS debt securities measured at amortized costs. While the Company attributes portions of the allowance to specific financial asset classes (debt security portfolios), the entire ACL is available to absorb credit losses of the Company.

The Company's ACL process involves procedures to appropriately consider the unique risk characteristics of the Company's major security types. For AFS debt securities, losses are estimated at the individual security level.

The Company's approach for estimating expected lifetime credit losses for debt securities includes utilizing discounted cash flow (DCF) methods to measure the ACL. The DCF methods obtain estimated lifetime credit losses using the initial and historical mean loss forecast periods with initial forecast period of two years.

(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The ACL for financial assets held at amortized cost is a valuation account that is deducted from, or added to, the amortized cost basis of the financial assets to present the net amount expected to be collected. When credit expectations change, the valuation account is adjusted with changes reported in provision for credit losses. If amounts previously charged off are subsequently expected to be collected, the Company may recognize a negative allowance, which is limited to the amount that was previously charged off. For financial assets with an ACL estimated using DCF methods, changes in the ACL due to the passage of time are recorded in interest income. The ACL for AFS debt securities reflects the amount of unrealized loss related to expected credit losses, limited by the amount that fair value is less than the amortized cost basis (fair value floor) and cannot have an associated negative allowance.

For certain financial assets, such as residential real estate loans guaranteed by the Government National Mortgage Association (GNMA), an agency of the federal government, U. S. Treasury and Agency mortgage backed debt securities, as well as certain sovereign debt securities, the Company has not recognized an ACL as our expectation of nonpayment of the amortized cost basis, based on historical losses, adjusted for current and forecasted conditions, is zero.

The Company does not generally record an ACL for accrued interest receivables because uncollectible accrued interest is reversed through interest income in a timely manner in line with our nonaccrual and past due policies for loans and debt securities.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents may include cash on deposit, money market funds and certificates of deposit with maturities of less than 90 days from acquisition (see Note 3).

DEFERRED ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED

The Company incurs significant costs in connection with acquiring new reinsurance business. The Company records the reimbursement of first year acquisition costs as deferred acquisition costs (DAC).

DAC consists of ceding commissions and other acquisition expenses that are amortized using the effective interest method. DAC is regularly reviewed to determine if it is recoverable from future premium income, including investment income, by evaluating whether or not a loss is probable on the unexpired portion of policies in force. A premium deficiency loss is recognized when it is probable that expected future claims will exceed anticipated future premiums and anticipated investment income.

The value of business acquired (VOBA) is the intangible asset representing the fair value assigned to annuity reinsurance contracts inforce at the time of a business combination. VOBA is amortized over the expected life of the contracts using the effective interest method. The carrying value is reviewed at least annually for possible impairment in value (see Note 6).

(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERIVATIVES

Economic hedge assets and liabilities include derivatives such as equity futures, equity options, and interest rate swaps. These economic hedges are recorded at fair value in economic hedges - assets and liabilities on the balance sheets with realized and unrealized gains and losses recorded in net gain (loss) on economic hedges in the statements of income. The fair value of derivatives in a gain position is reported as economic hedge assets and the fair value of derivatives in a loss position is reported as economic hedge liabilities (see Notes 7 and 8).

HEDGING ACTIVITIES

The Company uses derivatives to hedge interest rate risk and recognizes all derivatives on the balance sheet at fair value. On the date the Company enters into a derivative contract, the Company designates the derivative as qualifying for hedge accounting in a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment ("fair value hedge"). For derivatives not designated as a fair value hedge, the Company reports changes in the fair values in current period noninterest income.

For fair value hedges qualifying for hedge accounting, the Company formally documents at inception the relationship between hedging instruments and hedged items, the Company's risk management objective, strategy and the Company's evaluation of effectiveness for the Company's hedge transactions. This process includes linking all derivatives designated as fair value to specific assets and liabilities on the balance sheet or to specific forecasted transactions. The Company assesses hedge effectiveness using regression analysis, both at inception of the hedging relationship and on an ongoing basis. For fair value hedges, the regression analysis involves regressing the periodic change in fair value of the hedging instrument against the periodic changes in fair value of the asset or liability being hedged due to changes in the hedged risk(s). The assessment for fair value hedges includes an evaluation of the quantitative measures of the regression results used to validate the conclusion of high effectiveness. Periodically, as required, the Company also formally assesses whether the derivative the Company designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair values of the hedged item using the regression analysis method.

For a fair value hedge, the Company records changes in the fair value of the derivative and the hedged asset or liability due to the hedged risk in current period net income, except for certain derivatives in which a portion is recorded to OCI. The Company presents derivative gains or losses in the same income statement category as the hedged asset or liability. For fair value hedges of interest rate risk, amounts are reflected in net interest income.

(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company discontinues hedge accounting prospectively when (1) a derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item, (2) a derivative expires or is sold, terminated or exercised, or (3) the Company elects to discontinue the designation of a derivative as a hedge. When the Company discontinues fair value hedge accounting, the Company no longer adjusts the previously hedged asset or liability for changes in fair value, and remaining cumulative adjustments to the hedged item are accounted for in the same manner as other components of the carrying amount of the asset or liability. If the derivative continues to be held after fair value hedge accounting ceases, the Company carries the derivative on the balance sheet at its fair value with changes in fair value included in noninterest income (see Notes 7 and 8).

EMBEDDED DERIVATIVE LIABILITIES

The Company reinsures certain annuity products that contain contract riders that are deemed to be embedded derivatives, specifically, variable annuities with guaranteed minimum benefits. The Company assesses each identified embedded derivative and bifurcates it from the host contract as required under Derivatives and Hedging (Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 815). Such embedded derivatives are carried on the balance sheets at fair value and included in embedded derivative liabilities. Changes in the fair value of embedded derivatives are recorded in net gain or loss on embedded derivatives in the statements of income. The Company's hedging strategy is designed to mitigate the volatility associated with its reinsurance of variable annuities with guaranteed minimum benefits. The strategy is designed so that the fair value of the hedge contracts, primarily equity options, equity futures and interest rate swaps, economically offsets changes in the fair value of the embedded derivatives (see Notes 7 and 8).

COUNTERPARTY CREDIT RISK AND NETTING

By using derivatives, the Company is exposed to counterparty credit risk, which is the risk that counterparties to the derivative contracts do not perform as expected. If a counterparty fails to perform, our counterparty credit risk is equal to the amount reported as a derivative asset on our balance sheet. The amounts reported as a derivative asset are derivative contracts in a gain position, and to the extent subject to legally enforceable master netting arrangements, net of derivatives in a loss position with the same counterparty and cash collateral received. The Company minimizes counterparty credit risk through credit approvals, limits, monitoring procedures, executing master netting arrangements and obtaining collateral, where appropriate. Counterparty credit risk related to derivatives is considered in determining fair value and the Company’s assessment of hedge effectiveness. Consistent with the Parent company’s counterparty netting policy, the Company received approval from internal legal counsel in 2017 that the netting provision of the master netting agreement between Wells Fargo Bank, N.A. and the Company was valid and binding. To the extent derivatives subject to master netting arrangements meet the applicable requirements, including determining the legal enforceability of the arrangement, it is the Company’s policy to present derivative balances and related cash collateral amounts net on the balance sheet. For additional information on our derivatives and hedging activities, (see Notes 7 and 8).

(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REINSURANCE

The Company enters into reinsurance agreements with direct underwriters for surplus relief and stop loss reinsurance, as well as variable annuity agreements. Reinsurance premiums and reserves related to reinsured business are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts. The retroceding of insurance does not discharge the Company from its responsibility to the reinsured. See Note 5 for further discussion.

INCOME TAXES

The Company is part of a consolidated U.S. federal income tax return. The group utilizes a tax allocation method that allocates tax expense among members of the consolidated group using a modified separate return method. The separate return method has been modified such that each subsidiaries' net operating losses and capital losses are considered realized by the subsidiary in its separate financial statements when those net operating losses are used by the parent in its consolidated tax return with a cash settlement at that time. The separate return method, modified in the manner described above, provides a systematic, rational approach to allocating current and deferred income tax expense among the members of the group and is consistent with the broad principles established in ASC Topic 740.

The Company evaluates two components of income tax expense: current and deferred income tax expense. Current income tax expense represents estimated taxes to be paid or refunded for the current period and includes income tax expense related to uncertain tax positions. Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes has a greater than 50% likelihood of realization upon settlement. Tax benefits not meeting our realization criteria represent unrecognized tax benefits.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. The Company determines deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. See Note 9 for further discussion.

LIBOR TRANSITION

The London Interbank Offered Rate (LIBOR) is a widely reference benchmark rate that seeks to estimate the cost at which banks can borrow on an unsecured basis from other banks. On March 5, 2021, the United Kingdom's Financial Conduct Authority and ICE Benchmark Administration, the administrator of LIBOR, announced that certain settings of LIBOR would no longer be published on a representative basis after December 31, 2021, and the most commonly used U.S. dollar (USD) LIBOR settings would no longer be published on a representative basis after June 30, 2023. Central banks in various jurisdictions convened committees to identify replacement rates to facilitate the transition away from LIBOR. The committee convened by the Federal Reserve in the United States, the Alternative Reference Rate Committee (ARRC),

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

recommended the Secured Overnight Financing Rate (SOFR) as the replacement rate for USD LIBOR. Additionally, the Federal Reserve, the OCC and the Federal Deposit Insurance Corporation (FDIC) have issued guidance strongly encouraging banking organizations to cease using USD LIBOR as a reference rate in new contracts.

The Company continues to transition the legacy LIBOR contracts to alternative reference rates. The Company will continue to address contracts with LIBOR settings that are impacted by the June 30, 2023 cessation date.

- For USD LIBOR contracts that mature before June 30, 2023, those contract that are renewed or replaced will be indexed to an alternative reference rates.

Additionally, the Company will continue to monitor legislative developments that would provide a statutory framework to replace LIBOR with a benchmark rate based on SOFR in contracts that do not have fallback provisions or that have fallback provisions resulting in a replacement rate based on LIBOR.

ISSUED ACCOUNTING STANDARDS

ASU 2018-12 – Financial Services- Insurance-(Topic 944): *Targeted Improvements to the Accounting for Long-Duration Contracts and subsequent related updates* This update, which becomes effective January 1, 2023, requires market risk benefits (features of insurance contracts that protect the policyholder from other-than-nominal capital market risk and expose the insurer to that risk) to be measured at fair value through earnings with changes in fair value attributable to the Company's own credit risk recognized in other comprehensive income. The Update also requires more frequent updates for insurance assumptions, mandates the use of a standardized discount rate for traditional long-duration contracts, and simplifies the amortization of deferred acquisition costs.

The most significant impact of adoption relates to reinsurance of variable annuity products for a limited number of insurance clients. The Company is no longer entering into new contracts. The variable annuity products contain guaranteed minimum benefits that require the Company to make benefit payments for the remainder of the policyholder's life once the account values have been exhausted. These guaranteed minimum benefits meet the definition of market risk benefits and will be measured at fair value. The cumulative effect of the difference between fair value and the carrying value upon adoption of the Update, net of income tax adjustments and excluding the impact of the Company's own credit risk, will be recognized in the opening balance of retained earnings in the earliest period presented and will affect our regulatory capital calculations. At December 31, 2021, estimated liability related to these guaranteed minimum benefits was $506,171,909 and was associated with approximately $13,113,426,222 of policyholder account values. The Company expects future earnings volatility from changes in the fair value of market risk benefits, which are sensitive to changes in equity and fixed income markets, as well as policyholder behavior and changes in mortality assumptions. The Company plans to economically hedge the market volatility, where feasible. Change in the accounting for the liability of future policy benefits for traditional long-duration contract and deferred acquisition costs are not expected to be material.

(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ADOPTED ACCOUNTING STANDARDS

ASU 2021-01 – Reference Rate Reform (Topic 848) The Update clarifies the scope of Topic 848 to include derivatives affected by changes in interest for margining, discounting or contract price alignment as part of the market wide transition to new reference rates, even if such reference rates do not reference the London Interbank Offered Rate or another rate that is expected to be discontinued as a result of reference rate reform. The Update also clarifies other aspects of the relief provided in Accounting Standards Codification (ASC) 848. This Update was adopted in the first quarter of 2021 on a prospective basis and the guidance will be followed until the Update terminates on December 31, 2022. The Update did not have a material impact on the Company's financial statements.

ASU 2020-08- Codification Improvements to Subtopic 310-20 *Receivable-Nonrefundable Fees and Other Costs* The Update clarifies the accounting for purchased callable debt securities carried at a premium. The Update was issued to correct an unintended application of ASU 2017-08-Receivable- Nonrefundable Fees and Other Costs (Subtopic 310-20*): Premium Amortization on Purchased Callable Debt Securities*, which requires amortization of such premiums to the earliest call date, but was not clear for the method to be used for instruments with multiple call dates. The Update now specifies that such premiums are amortized to the next call date and requires reassessment throughout the life of the instruments with multiple call dates. This Update was adopted in the first quarter of 2021 and did not have a material impact on the Company's financial statements.

ASU 2020-01 Investments- Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323) and Derivatives and Hedging (Topic 815*): Clarifying the Interactions between Topic 321, Topic 323 and Topic 815 (a consensus of the Financial Accounting Standards Board (FASB) Emerging Issues Task Force)* This Update clarifies the accounting for equity securities upon transition between the measurement alternative and equity method. The Update also clarifies for forward contracts and options to purchase equity securities an entity need not consider whether upon settlement of the forward contract or option if the equity security would be accounted for by the equity method or the fair value option. This Update was adopted in the first quarter 2021 and did not have a material impact on the Company's financial statements.

SUBSEQUENT EVENTS

We have evaluated the effects of subsequent events that have occurred subsequent to the period end December 31, 2021 and through April 27, 2022, which is the date we issued our financial statements.

NOTE 3: DEBT SECURITIES - AVAILABLE-FOR-SALE

The following table provides the amortized cost and fair value by major categories of available-for-sale securities at December 31, 2021 and 2020. The amortized cost, unrelaized gains, and unrealized losses are presented net of ACL.

($ in thousands)		Amortized cost		Gross unrealized gains		Gross unrealized losses		Fair value
December 31, 2021:								
Securities of U.S. Treasury and federal agencies	**$**	**9,956**	**$**	**526**	**$**	**-**	**$**	**10,482**
Federal agency mortgage-backed securities		**211,440**		**7,874**		**-**		**219,314**
Commercial mortgage-backed securities		**15,819**		**102**		**-**		**15,921**
Collateralized debt obligations		**455,713**		**155**		**(405)**		**455,463**
Total debt securities	**$**	**692,928**	**$**	**8,657**	**$**	**(405)**	**$**	**701,180**

($ in thousands)		Amortized cost		Gross unrealized gains		Gross unrealized losses		Fair value
December 31, 2020:								
Securities of U.S. Treasury and federal agencies	$	414,867	$	1,132	$	-	$	415,999
Federal agency mortgage-backed securities		337,160		13,623		-		350,783
Commercial mortgage-backed securities		48,188		-		(994)		47,194
Collateralized debt obligations		858,831		484		(3,418)		855,897
Corporate debt securities		497,590		21,995		(2,814)		516,771
Other debt securities		15,286		307		(11)		15,582
Total debt securities	$	2,171,922	$	37,541	$	(7,237)	$	2,202,226

(Continued)

NOTE 3: DEBT SECURITIES - AVAILABLE-FOR-SALE (continued)

Gross Unrealized Losses and Fair Value

The following table shows the gross unrealized losses and fair value of securities in the available-for-sale securities portfolio by length of time that individual securities in each category had been in a continuous loss position. Debt securities on which the Company has recorded credit impairment are categorized as being "less than 12 months" or "12 months or more" in a continuous loss position based on the point in time that the fair value declined to below the (1) for the current period presented, amortized cost basis net of allowance for credit losses, or the (2) for the prior period presented, amortized cost basis.

	Less than 12 months		12 months or more		Total	
($ in thousands)	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
December 31, 2021:						
Securities of U.S. Treasury and federal agencies	$ -	$ -	$ -	$ -	$ -	$ -
Federal agency mortgage-backed securities	-	-	-	-	-	-
Commercial mortgage-backed securities					-	-
Collateralized debt obligations	**(301)**	**390,646**	**(104)**	**64,816**	**(405)**	**455,462**
Total debt securities	**$ (301)**	**$ 390,646**	**$ (104)**	**$ 64,816**	**$ (405)**	**$ 455,462**
December 31, 2020:						
Securities of U.S. Treasury and federal agencies	$ -	$ -	$ -	$ -	$ -	$ -
Federal agency mortgage-backed securities	-	-	-	-	-	-
Commercial mortgage-backed securities	-	-	(994)	47,194	(994)	47,194
Collateralized debt obligations	(1,491)	343,524	(1,927)	329,834	(3,418)	673,358
Corporate debt securities	(2,766)	49,057	(48)	1,537	(2,814)	50,594
Other debt securities	-	-	(11)	7,435	(11)	7,435
Total debt securities	$ (4,257)	$ 392,581	$ (2,980)	$ 386,000	$ (7,237)	$ 778,581

The Company has assessed each debt security with gross unrealized losses included in the previous table for credit impairment. As part of that assessment the Company has evaluated and concluded that the Company does not intend to sell any of the debt securities, and that it is more likely than not that the Company will not be required to sell, prior to recovery of the amortized cost basis. The Company evaluates, where necessary, whether credit impairment exists by comparing the present value of the expected cash flows to the debt securities' amortized cost basis. Credit impairment is recorded as an ACL for debt securities. For descriptions of the factors the Company considers when analyzing debt securities for impairment as well as methodology and significant inputs used to measure credit losses, see Note 2.

(Continued)

NOTE 3: DEBT SECURITIES - AVAILABLE-FOR-SALE (continued)

The following table shows remaining weighted average life maturities of securities available-for-sale, at fair value at December 31, 2021 and 2020. Weighted average life is the weighted average number of years an investment is expected to remain outstanding, based on its expected cash flows reflecting the estimated date the issuer will call or extend the maturity of the instrument or otherwise reflecting an estimate of the timing of an instrument's cash flows whose timing is not contractually fixed.

($ in thousands)	Less than one year	One year to five years	Five years to ten years	More than ten years	Total
December 31, 2021:					
Securities of U.S. Treasury and federal agencies	**$ -**	**10,482**	**-**	**-**	**$ 10,482**
Collateralized debt obligations	**-**	**192,924**	**262,539**	**-**	**455,463**
Total non-mortgage backed securities	**$ -**	**$ 203,406**	**$ 262,539**	**$ -**	**$ 465,945**
Federal agency mortgage-backed securities					**219,314**
Commercial mortgage-backed securities					**15,921**
Total mortgage backed securities					**$ 235,235**
Total debt securities					**$ 701,180**
December 31, 2020:					
Securities of U.S. Treasury and federal agencies	$ 404,946	-	11,053	-	$ 415,999
Collateralized debt obligations	14,762	557,605	283,530	-	855,897
Corporate debt securities	3,846	205,861	231,599	75,465	516,771
Other debt securities	-	7,435	-	8,147	15,582
Total non-mortgage backed securities	$ 423,554	$ 770,901	$ 526,182	$ 83,612	$ 1,804,249
Federal agency mortgage-backed securities					350,783
Commercial mortgage-backed securities					47,194
Total mortgage backed securities					$ 397,977
Total debt securities					$ 2,202,226

(Continued)

NOTE 3: DEBT SECURITIES - AVAILABLE-FOR-SALE (continued)

Realized Gains and Losses

The following table shows the gross realized gains and losses on sales.

($ in thousands)		2021		2020
Provision for credit (losses) :				
Available-for-sale	$	**1,265**	$	(1,831)
Total provision for credit (losses)		**1,265**		(1,831)
Realized gains and losses:				
Gross realized gains		**25,558**		16
Gross realized losses		**(308)**		(309)
Net realized gain (loss) from securities available-for-sale	$	**25,250**	$	(293)

Pursuant to the reinsurance agreements between the Company and the direct insurers, the Company is required to maintain trust accounts to protect the interests of such direct insurers. At December 31, 2021, the Company held cash and cash equivalents and investment securities in individual trust accounts in the amount of $1,203,647,094 which consisted of an amortized cost of $580,534,257 in cash and cash equivalents and $623,112,837 in securities available-for-sale.

At December 31, 2020, the Company held cash and cash equivalents and investment securities in individual trust accounts in the amount of $1,879,470,155 which consisted of an amortized cost of $140,660,525 in cash and cash equivalents and $1,738,809,630 in securities available-for-

NOTE 4: AFFILIATED PARTY TRANSACTIONS

Due to the nature of common ownership of the Company and its affiliated parties, the following transactions could differ from those conducted with unaffiliated parties.

(Continued)

NOTE 4: AFFILIATED PARTY TRANSACTIONS (continued)

The Company enters into borrowing and lending agreements with Well Fargo's primary funding affiliate as a way to efficiently manage its funding needs and excess cash flows. These arrangements are standard-form arrangements used by other Wells Fargo affiliates and the form, amounts and terms are reviewed and underwritten annually by independent credit areas. In April 2019, the Company entered into a borrowing agreement with WFC Holding, LLC. Terms of this agreement allowed the Company to borrow up to $1,500,000,000. The basis for the interest rate was actual/365 using a one-calendar-month average of 3-month LIBOR plus 61 basis points. This agreement was updated in November 2020 with the all terms remaining the same except terms allowing for the transition to an interest rate different than LIBOR. Intercompany debt to Parent was $0 at both December 31, 2021 and December 31, 2020. The statements of income for both 2021 and 2020 included $0 in interest expense associated with this note.

In October 2019, the Company entered into a lending agreement with WFC Holding, LLC. Terms of this agreement allow WFC, Holding LLC to borrow up to $600,000,000. This agreement was amended in July 2020 allowing WFC, Holding LLC to borrow up to $900,000,000 and again on May 14, 2021 allowing WFC Holding LLC to borrow up to $1,200,000,000.

At December 31, 2021, the inter-company note receivable was $595,026,664. The basis for the interest rate was actual/365 using a one-calendar-month average of 3-month LIBOR plus 64 basis points or 0.085%. Interest income associated with this note in 2021 was $4,597,374. Additonally, the Company was owed interest of $486,197 at December 31, 2021 in connection with this note.

At December 31, 2020, the inter-company note receivable was $84,147,019. The basis for the interest rate was actual/365 using a one-calendar-month average of 3-month LIBOR plus 64 basis points or 0.087%. Interest income associated with this note in 2020 was $6,740,312. Additonally, the Company was owed interest of $538,450 at December 31, 2020 in connection with this note.

The Company regularly places trades for equity options and interest rate swaps with the Wholesale division (Wholesale) of Wells Fargo. The trades are priced in accordance with standard industry practices. The Company holds cash collateral in support of these trading positions, recorded in affiliate payable on the balance sheets of $48,400,000 and $25,240,000 as of December 31, 2021 and 2020, respectively. It is the Company's policy to present derivative balances and related cash collateral amounts net on the balance sheet when the master netting arrangements meet the applicable requirements. See Note 2. The Company pays interest on the outstanding balance at the end of every month based on the Fed Funds rate (0.07% as of December 31, 2021 and 0.09% as of December 31, 2020). The Company recognized interest income $4,298 and $5,365 and incurred interest expense of $9,475 and ($20,739) in 2021 and 2020, respectively.

(Continued)

NOTE 4: AFFILIATED PARTY TRANSACTIONS (continued)

The Company uses Wells Fargo Securities (WFS), which is a subdivision of Wholesale, for its equity futures transactions. WFS acts as a broker for these transactions, however, the margin balance is recorded in affiliate receivable on the balance sheets. The balance as of December 31, 2021 and 2020 is $2,250,243 and $2,132,829, respectively. The affiliate receivable also includes outstanding transactions with Wholesale related to the equity options and interest rate swaps. As of December 31, 2021 and 2020, there were no outstanding transactions.

The Company purchases derivatives to manage exposure to market risk, including interest rate risk and credit risk. The counterparties on these derivatives are affiliates of the Company. The Company has entered into agreements that allow netting of derivative asset and liability balances, including related cash collateral adjustments. For more information on these transactions, see Note 7.

The Company is subject to pay affiliated entities for services provided to it. The Company pays Wells Fargo Bank N.A. (WFB), treasury management fees related to the operating bank account. In 2021 and 2020 the Company paid $4,640 and $4,654, respectively, which is included in affiliate expense in the statements of income.

The Company has a service level agreement with WFS, WFB, and starting in April 2017, Wells Fargo Insurance, Inc. (WFII). Under this agreement, the Company is obligated to pay WFS, WFB, and WFII for direct expenses, primarily personnel and outside professional service expenses, and indirect expenses, primarily allocated corporate support function expenses. For the years ended December 31, 2021 and 2020, $6,395,618 and $8,470,592, respectively, were included in affiliate expense in the statements of income related to this agreement. The Company has no employees.

The Company is charged under an expense sharing arrangement fees or expense allocations by various affiliate service providers which represent reimbursement for direct cost and general overhead costs incurred by the affiliate for support services to the Company. Services under these arrangements include information technology systems, support and development; operations support; and general and administrative support services. Allocation methodologies are customized by the type of product line being supported. Fees charged were $1,164,784 and $3,364,542 respectively, for the year ended December 31, 2021 and 2020.

The Company may, from time to time, purchase or sell securities from / to affiliates under market prices. This occurs when the objectives of two Wells Fargo affiliates can be met through an internal sale without creating any adverse outcome for either affiliate. This could include scenarios where one affiliate may need to sell securities to pay for a dividend, but the quality of the securities is attractive and the Company has the ability to purchase those securities.

NOTE 5: REINSURANCE

SURPLUS RELIEF AGREEMENTS

The Company enters into surplus relief reinsurance transactions with U.S. domiciled direct underwriting and reinsurance carriers. The types of business assumed generally consist of level premium term and yearly renewable term life insurance. Since the Company is not a U.S. authorized reinsurance carrier, the Company must provide collateral for reserve credits taken by the ceding companies by placing assets in trust accounts. The Company continues to own and consolidate its share of the trusts' invested assets on the accompanying balance sheets and recognizes gains or losses on the assets. As a result of providing the collateral needed to support the reserve credit, the Company earned reinsurance fee income of $10,750,159 and $16,520,866 in 2021 and 2020, respectively. Additionally, in 2021 the Company received an early termination fee of $1,730,657 for a surplus relief contract which had been recaptured.

Commitments and assets held in trust under the surplus relief deals outstanding at December 31, 2021 and 2020 are presented in the table below.

($ in thousands)	**2021**	2020
Maximum potential reserve credit	**$ 700,000**	$ 1,665,000
Outstanding reserve credit	**672,340**	1,270,742
Associated assets held in trust (amortized cost)	**688,501**	1,317,710

In 2020, two reinsurance contracts were recaptured and therefore the Company did not have any outstanding insurance liablities related to these contracts. However, the Company still had assets held in the trusts related to these contracts due to the timing of the recapture. The assets held in trusts related to these contracts are presented below.

($ in thousands) For the year ended December 31	**2020**
Associated assets held in trust (cash and cash equivalents, amortized cost)	**$ 8,531**
Accociated assets held in trust (investment securities, amortized cost)	**54,236**
	62,767

In 2013, the Company entered into stop loss reinsurance contracts which are a subset of the surplus relief product. Stop loss reinsurance is based on an attachment point that is generally higher than that of a typical surplus relief structure. Due to the higher attachment point, the Company is required to place fewer assets in trust or none at all. The Company earned reinsurance fee income of $29,863,968 and $32,123,985 in 2021 and 2020, respectively. Additionally, in 2021 the Company received an early termination fee of $422,360 on a terminated stop loss contract.

(Continued)

NOTE 5: REINSURANCE (continued)

Commitments and assets held in trust under the stop loss contracts outstanding at December 31, 2021 and 2020 are presented in the table below.

($ in thousands)	**2021**	2020
Maximum potential reserve credit	**$ 7,150,000**	$ 7,100,000
Outstanding reserve credit	**5,915,954**	5,719,405
Associated assets held in trust (amortized cost)	**—**	—

VARIABLE ANNUITY AGREEMENTS

The Company enters into reinsurance contracts with direct underwriters for new business production of variable annuity products. The transactions are coinsurance and modified coinsurance agreements. Certain contracts offer various guaranteed minimum death, withdrawal, income and accumulation benefits. Those benefits are accounted for as derivatives under FASB ASC 815 or as insurance contracts depending on the terms of underlying policies, as discussed below.

Guaranteed minimum benefits often meet the definition of an embedded derivative; however, certain guaranteed minimum benefits settle only upon a single insurable event, such as death (guaranteed minimum death benefits (GMDB)) or living (life contingent portion of guaranteed minimum withdrawal benefits (GMWB)) and as such are accounted for as insurance contracts. For such contracts, the statements of income reflect the current period increase in the liability due to the deferral of a percentage of current period revenues. Claims recorded against the liability have no immediate impact on the statements of income unless those claims exceed the liability. Periodically, the Company unlocks its benefit assumptions, including the benefit deferral rate. The impact of this change is reflected in the change in liability for future policy benefits in the statements of income. The liability related to these benefits was $538,113,998 and $554,944,036 at December 31, 2021 and 2020, respectively, and is included in liability for future policy benefits on the balance sheets.

The Company's guaranteed minimum accumulation benefits, the portion that is not life contingent for GMWB, and the guaranteed minimum income benefits that are embedded derivatives are recorded at fair value with changes in fair value recorded in net gain (loss) on embedded derivatives in the statements of income. The embedded derivative liability balance was $12,189,119 and $26,517,062 at December 31, 2021 and 2020, respectively, and is included in embedded derivative liabilities on the balance sheets.

Changes in capital markets or policyholder behavior may increase or decrease the Company's exposure to benefits under the guarantees. As a result, the Company uses derivative instruments, included in trading account assets and liabilities on the balance sheets, to mitigate portions of that exposure. See Note 7 for more information on these derivatives.

(Continued)

NOTE 5: REINSURANCE (continued)

The Company earned reinsurance premiums of 187,173,498 and $194,221,761 in 2021 and 2020, included in net reinsurance premiums earned in the statements of income. Additionally, in 2021 the Company paid an early termination fee of $87,500,000 for the termination of a variable annuity contract.

NOTE 6: VALUE OF BUSINESS ACQUIRED / DEFERRED ACQUISITION COSTS

Acquisition costs deferred and amortized in 2021 and 2020 are presented in the table below.

($ in thousands)		DAC Amount		VOBA Amount
Deferred acquisition costs / value of business acquired, December 31, 2019	$	8,418	$	23,214
Amortized costs		(985)		(3,207)
Deferred acquisition costs / value of business acquired, December 31, 2020	**$**	**7,433**	**$**	**20,007**
Amortized costs		**(916)**		**(2,843)**
Deferred acquisition costs / value of business acquired, December 31, 2021	**$**	**6,517**	**$**	**17,164**

The outstanding VOBA and DAC are entirely attributable to variable annuity treaties. The VOBA and DAC are expected to be amortized as shown in the table below.

($ in thousands)	DAC Amortization	VOBA Amortization
2022	**876**	**2,580**
2023	**1,054**	**2,964**
2024	**1,085**	**2,940**
2025	**946**	**2,433**
2026	**774**	**1,889**
Greater than 5 years	**1,782**	**4,358**

NOTE 7: DERIVATIVES

The Company uses derivatives to manage exposure to market risk, including interest rate risk and credit risk. The Company designates certain derivatives as hedging instruments in a qualifying hedge accounting relationship (fair value hedges). The remaining derivatives consist of economic hedges that do not qualify for hedge accounting.

(Continued)

NOTE 7: DERIVATIVES (continued)

The Company's asset/liability management approach to interest rate and certain other risks includes the use of derivatives. Such derivatives are typically designated as fair value hedges, or economic hedges. The Company uses derivatives to help minimize significant, unplanned fluctuations in earnings, fair values of assets and liabilities, and other market risk volatility. This approach involves modifying the repricing characteristics of certain assets and liabilities so that changes in interest rates and other exposures, which may cause the hedged assets and liabilities to gain or lose fair value, do not have a significantly adverse effect on the net interest margin and earnings. In a fair value or economic hedge, the effect of change in fair value will generally be offset by the unrealized gain or loss on the derivatives linked to the hedged assets and liabilities.

Embedded derivatives that are required to be accounted for separately from their host contracts are included in other derivatives disclosures as applicable.

The table below presents the total notional or contractual amounts and fair values for the Company's derivatives. Derivative transactions can be measured in terms of the notional amount, but this amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. The notional amount is generally not exchanged, but is used only as the basis on which interest and other payments are determined.

December 31, 2021 ($ in thousands)	**Notional Amount**	**Assets**	**Liabilities**
Derivatives designated as hedging instruments			
Interest rate swaps	$ 14,500	$ -	$ 1,102
Total derivatives designated as hedging instruments		-	1,102
Derivatives not designated as hedging instruments			
Economic hedges:			
Equity options	248,214	15,333	-
Interest rate swaps	749,400	56,298	21,744
Equity futures	57,905	-	-
Total derivatives not designated as hedging instruments	-	71,631	21,744
Embedded derivative	-	-	12,189
Total derivatives before netting		71,631	35,035
Netting (1)		(71,246)	(22,846)
Total derivatives		$ 385	$ 12,189

(1) Represents balance sheet netting of derivative asset and liablity balances and related cash collateral. See the next table in this note for further information.

(Continued)

NOTE 7: DERIVATIVES (continued)

December 31, 2020 ($ in thousands)		Notional Amount		Assets		Liabilities
Derivatives designated as hedging instruments						
Interest rate swaps	$	443,259	$	210	$	40,665
Total derivatives designated as hedging instruments				210		40,665
Derivatives not designated as hedging instruments						
Economic hedges:						
Equity options		264,464		20,755		-
Interest rate swaps		866,600		82,298		37,360
Equity futures		73,188		-		-
Total derivatives not designated as hedging instruments		-		103,053		37,360
Embedded derivative		-		-		26,517
Total derivatives before netting				103,263		104,542
Netting (1)				(103,263)		(78,025)
Total derivatives			$	-	$	26,517

(1) Represents balance sheet netting of derivative asset and liablity balances and related cash collateral. See the next table in this note for further information.

The next table provides information on the gross fair values of derivative assets and liabilities, the balance sheet netting adjustments and the resulting net fair value amount recorded on the balance sheet, as well as the non-cash collateral associated with such arrangements. The Company executes all derivative transactions under master netting arrangements and reflect all derivative balances and related cash collateral subject to enforceable master netting arrangements on a net basis within the balance sheet. The “Gross amounts recognized” column in the following table includes $71,630,765 of gross derivative assets and $35,034,991 of gross derivative liabilities at December 31, 2021 and, $103,263,299 of gross derivative assets and $104,541,481 of gross derivative liabilities at December 31, 2020, with counterparties subject to enforceable master netting arrangements that are carried on the balance sheet net of offsetting amounts.

The Company determines the balance sheet netting adjustments based on the terms specified within each master netting arrangement. The Company discloses the balance sheet netting amounts within the column titled “Gross amounts offset in balance sheet” in the table below. Balance sheet netting adjustments are determined at the counterparty level for which there may be multiple contract types. For disclosure purposes, the Company allocates these netting adjustments to the contract type for each counterparty proportionally based upon the “Gross amounts recognized” by counterparty. As a result, the net amounts disclosed by contract type may not represent the actual exposure upon settlement of the contracts.

(Continued)

NOTE 7: DERIVATIVES (continued)

The Company manages derivative exposure by monitoring the credit risk associated with each counterparty using counterparty specific credit risk limits, using master netting arrangements and obtaining collateral. Derivative contracts executed in over-the-counter markets include bilateral contractual arrangements that are not cleared through a central clearing organization but are typically subject to master netting arrangements. The percentage of our bilateral derivative transactions outstanding at period end in such markets, based on gross fair value, is provided within the following table. Other derivative contracts executed in over-the-counter or exchange-traded markets are settled through a central clearing organization and are excluded from this percentage.

($ in thousands)	**Gross amounts recognized**	**Gross amounts offset in balance sheet (1)**	**Net amounts in balance sheet**
December 31, 2021			
Derivative assets			
Interest rate swaps	**$ 56,298**	**$ (55,996)**	**$ 302**
Equity options	**15,333**	**(15,250)**	**83**
Total derivative assets	**71,631**	**(71,246)**	**385**
Derivative liablities			
Interest rate swaps	**22,846**	**(22,846)**	**-**
Embedded derivative	**12,189**	**-**	**12,189**
Total derivative liabilities	**$ 35,035**	**$ (22,846)**	**$ 12,189**

(1) Represents amounts with counterparties subject to enforceable master netting arrangements that have been offset on the balance sheet, including related cash collateral of $48,400.

($ in thousands)	Gross amounts recognized	Gross amounts offset in balance sheet (1)	Net amounts in balance sheet
December 31, 2020			
Derivative assets			
Interest rate swaps	$ 82,508	$ (82,508)	$ -
Equity options	20,755	(20,755)	-
Total derivative assets	103,263	(103,263)	-
Derivative liablities			
Interest rate swaps	78,025	(78,025)	-
Embedded derivative	26,517		26,517
Total derivative liabilities	$ 104,542	$ (78,025)	$ 26,517

(1) Represents amounts with counterparties subject to enforceable master netting arrangements that have been offset on the balance sheet, including related cash collateral of $25,239.

(Continued)

NOTE 7: DERIVATIVES (continued)

Fair Value Hedges

The Company uses interest rate swaps to convert certain of our fixed-rate long-term debt to floating rates to hedge our exposure to interest rate risk. In addition, the Company uses interest rate swaps to hedge against changes in fair value of certain investments in available-for-sale debt securities due to changes in interest rates.

The table below shows the net gains (losses) recognized in the statements of income related to derivatives in fair value hedging relationships.

($ in thousands)	**2021**	2020
Total amounts presented in the statement of income	**$ 25,945**	$ 49,325
Gains (losses) on fair value hedging relationships		
Interest Contracts		
Amounts related to interest settlements on derivatives	**(7,102)**	(8,467)
Recognized on derivatives	**14,695**	(18,899)
Recognized on hedged items	**(14,693)**	18,694
Net expense recognized on fair value hedges	**$ (7,100)**	$ (8,672)

The table below shows the carrying amount and associated cumulative basis adjustment related to the application of hedge accounting that is included in the carrying amount of hedged assets and liabilites in fair value hedging relationships.

	Hedged items currently designated		Hedged items no longer designated (1)	
($ in thousands)	Carrying amount of assets (3)	Hedge accounting basis adjustment assets(liabilities) (2)	Carrying amount of assets (3)	Hedge accounting basis adjustment assets(liabilities) (2)
December 31, 2021				
Investments securities, Available-for sale (4)	**$ 15,763**	**$ 591**	**$ -**	**$ -**

(1) Represents hedged items no longer designated in qualifying fair value hedging relationships for which an associated basis adjustment exists at the balance sheet date.

(2) The balance includes $476 of investment securities cumulative basis adjustments on terminated hedges whereby the hedged items have subsequently been re-designated into existing hedges.

(3) Represents the full carrying amount of the hedged asset item as of the balance sheet date, except for circumstances in which only a portion of the asset was designated as the hedged item in which case only the portion designated is presented.

(4) Carrying amount represents the amortized cost.

(Continued)

NOTE 7: DERIVATIVES (continued)

	Hedged items currently designated		Hedged items no longer designated (1)	
($ in thousands)	Carrying amount of assets (3)	Hedge accounting basis adjustment assets(liabilities) (2)	Carrying amount of assets (3)	Hedge accounting basis adjustment assets(liabilities) (2)
December 31, 2020				
Investments securities, Available-for sale (4)	**$ 439,659**	**$ 28,281**	**$ 23,256**	**$ 170**

(1) Represents hedged items no longer designated in qualifying fair value hedging relationships for which an associated basis adjustment exists at the balance sheet date.

(2) The balance includes $7,813 of investment securities cumulative basis adjustments on terminated hedges whereby the hedged items have subsequently been re-designated into existing hedges.

(3) Represents the full carrying amount of the hedged asset item as of the balance sheet date, except for circumstances in which only a portion of the asset was designated at the hedged item in which case only the portion designated is presented.

(4) Carrying amount represents the amortized cost.

The embedded derivatives primarily relate to the Company's reinsurance of variable annuity contracts with guaranteed minimum benefits as described in Note 5. Embedded derivative gains of $14,327,943 and losses of $9,373,002 were reported for 2021 and 2020, respectively. Trading derivative losses of $17,605,069 and gains of $2,534,076 were reported for 2021 and 2020, respectively.

The Company maintains a margin account to support certain activities in the trading accounts above. In 2021 and 2020 the broker was Wells Fargo Securities. A U.S. Treasury Note with a fair value of $10,482,422 and $11,053,516, (included in investment securities on the balance sheet) and a cash deposit of $2,250,243 and $2,132,829 (included in affiliate receivables on the balance sheets) are held by the broker at December 31, 2021 and 2020, respectively, for the benefit of the Company.

NOTE 8: FAIR VALUES OF ASSETS AND LIABILITIES

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale and derivatives are recorded at fair value on a recurring basis.

FAIR VALUE HIERARCHY

The Company groups assets and liabilities measured at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

NOTE 8: FAIR VALUES OF ASSETS AND LIABILITIES (continued)

These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from techniques that use significant assumptions that are not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

In the determination of the classification of financial instruments in Level 2 or Level 3 of the fair value hierarchy, the Company considers all available information, including observable market data, indications of market liquidity and orderliness, and its understanding of the valuation techniques and significant inputs used. Otherwise, the classification of Level 2 or Level 3 is based upon the specific facts and circumstances of each instrument or instrument category and judgments are made regarding the significance of the Level 3 inputs to the instruments' fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3.

AVAILABLE-FOR-SALE SECURITIES

AFS debt securities are recorded at fair value on a recurring basis. Fair value measurement for AFS debt securities is based upon various sources of market pricing. Where available, the Company uses quoted prices in active markets. When instruments are traded in secondary markets and quoted prices in active markets do not exist for such securities, the Company uses prices obtained from third-party pricing services and, to a lesser extent, may use prices obtained from independent broker-dealers (brokers), collectively vendor prices. Substantially all of our AFS debt securities are recorded using vendor prices. When vendor prices are deemed inappropriate, they may be adjusted based on other market data or internal models. The Company also uses internal models when no vendor prices are available. Internal models use discounted cash flow techniques or market comparable pricing techniques.

Available-for-sale securities are recorded at fair value on a recurring basis. Fair value measurement is based upon various sources of market pricing. The Company uses quoted prices in active markets, where available, and classify such instruments within Level 1 of the fair value hierarchy. Examples include some highly liquid government securities, such as U.S. Treasuries. When instruments are traded in secondary markets and quoted market prices do not exist for such securities, the Company generally relies on internal valuation techniques or on prices obtained from vendors (predominantly third-party pricing services), and accordingly, the Company classifies these instruments as Level 2 or 3.

(Continued)

NOTE 8: FAIR VALUES OF ASSETS AND LIABILITIES (continued)

DERIVATIVES

Derivatives are recorded at fair value on a recurring basis. The fair value of substantially all exchange-traded derivatives, which include certain equity option contracts, are measured using available quoted market prices. The fair value of non-exchange-traded derivatives, which predominantly relate to derivatives traded in over-the-counter (OTC) markets, are measured using internal valuation techniques, as quoted market prices are not always readily available. Valuation techniques and inputs to internally developed models depend on the type of derivative and nature of the underlying rate, price or index upon which the value of the derivative is based. Key inputs can include yield curves, credit curves, foreign exchange rates, prepayment rates, volatility measurements and correlation of certain of these inputs.

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A RECURRING BASIS

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2021 and 2020, for each of the fair value hierarchy levels.

($ in thousands)

December 31, 2021	Level 1	Level 2	Level 3	Total
Assets				
Securities of U.S. Treasury and federal agencies	$ 10,482	$ -	$ -	$ 10,482
Federal agency mortgage-backed securities	-	219,314	-	219,314
Commercial mortgage-backed securities	-	15,921	-	15,921
Collateralized debt obligations	-	455,463	-	455,463
Total debt securities	10,482	690,698	-	701,180
Equity options	-	15,333	-	15,333
Interest rate swaps	-	56,298	-	56,298
Total derivative assets	-	71,631	-	71,631
Total assets	$ 10,482	$ 762,329	$ -	$ 772,811
Liabilities				
Interest rate swaps	$ -	$ 22,846	$ -	$ 22,846
Total derivative liabilities	-	22,846	-	22,846
Embedded derivative liabilities	-		12,189	12,189
Total liabilities	$ -	$ 22,846	$ 12,189	$ 35,035

(Continued)

NOTE 8: FAIR VALUES OF ASSETS AND LIABILITIES (continued)

($ in thousands)

December 31, 2020	Level 1	Level 2	Level 3	Total
Assets				
Securities of U.S. Treasury and federal agencies	$ 415,999	$ -	$ -	$ 415,999
Federal agency mortgage-backed securities	-	350,783	-	350,783
Commercial mortgage-backed securities	-	47,194	-	47,194
Collateralized debt obligations	-	855,897	-	855,897
Corporate debt securities	-	516,771	-	516,771
Other debt securities	-	15,582	-	15,582
Total debt securities	415,999	1,786,227	-	2,202,226
Equity options	-	20,755	-	20,755
Interest rate swaps	-	82,508	-	82,508
Total assets	$ 415,999	$ 1,889,490	$ -	$ 2,305,489
Liabilities				
Interest rate swaps	$ -	$ 78,025	$ -	$ 78,025
Total derivative liabilities	-	78,025	-	78,025
Embedded derivative liabilities	-		26,517	26,517
Total liabilities	$ -	$ 78,025	$ 26,517	$ 104,542

The Company's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. The Company monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended December 31, 2021 and 2020.

Material changes that affect the investment options available to policyholders related to annuity business being reinsured must be communicated by the direct underwriter. The Company may accept or reject any material changes. If the Company rejects any such change, the Company's liability will be determined as if no such change had occurred. However, if the liability is unable to be recalculated excluding any material changes, an alternative settlement can be agreed upon between the Company and the direct underwriter.

(Continued)

NOTE 8: FAIR VALUES OF ASSETS AND LIABILITIES (continued)

The changes in Level 3 liabilities measured at fair value on a recurring basis for the years ended December 31, 2021 and 2020 are summarized in the table below.

($ in thousands)	Balance, beginning of period	Net income (loss)	Other compehensive income	Sales	Material change settlement	Balance, end of period	Net unrealized gains (losses) included in income related to assets and liabilities held at period end
December 31, 2021							
Embedded derivative liabilities	**$ (26,517)**	**$ 14,328**				**(12,189)**	**14,328**
December 31, 2020							
Embedded derivative liabilities	$ (17,200)	$ (9,373)			56	(26,517)	(9,373)

The embedded derivatives from the variable annuity reinsurance contracts use unobservable inputs to derive the fair value. These inputs include volatility, interest rates, equity markets and actuarial assumptions such as mortality, lapses and other policyholder behavior.

As of December 31, 2021 and 2020, the Company did not have any assets or liabilities that were measured at fair value on a nonrecurring basis. Also, the Company did not elect the fair value option under Financial Instruments (FASB ASC 825).

OTHER

Other assets and liabilities such as receivables and payables are deemed to be a reasonable estimate of fair value due to the short-term nature of these instruments. Certain instruments such as deferred acquisition costs, deferred income taxes and liability for future policy benefits are excluded from the fair value disclosure, and accordingly, the fair value amounts cannot be aggregated to determine the underlying economic value of the Company. The carrying value of the intercompany notes approximates fair value due to its variable interest rate indexed on LIBOR.

NOTE 9: INCOME TAX EXPENSE

BERMUDA

The Company has received an undertaking from the Minister of Finance in Bermuda that, in the event of any imposition of income taxes, the Company will be exempted from taxation until the year 2035.

UNITED STATES

The Company made an irrevocable election under Section 953(d) of the Internal Revenue Code of 1986, as amended, to treat the Company as a domestic insurance company for U.S. federal income tax purposes. As a result of the "domestic election", the Company is subject to U.S. taxation on its worldwide income as if it were a U.S. corporation. Beginning in 2014, the Company was included in Wells Fargo's federal consolidated income tax return, and is subject to the allocation of the tax liability (benefit) of the consolidated group. Deferred income tax assets and liabilities are established for the expected future tax consequences attributable to temporary differences between the financial statement carrying amount and the tax basis of assets and liabilities. Deferred income 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 of a change in income tax rates on deferred income tax assets and liabilities is recognized in income during the period that includes the enactment date.

The aggregate amount of income tax expense (benefit) included in the statements of income and in the statements of comprehensive income for each of the years in the two-year period ended December 31, 2021 is presented below.

($ in thousands)		2021		2020
STATEMENTS OF INCOME				
Federal income tax expense	$	40,213	$	36,634
State income tax expense		145		674
STATEMENTS OF COMPREHENSIVE INCOME				
Income tax (benefit) related to unrealized gains on debt securities		(5,015)		(24)
Total	$	35,343	$	37,284

Income tax expense (benefit) for 2021 and 2020 is presented below.

($ in thousands)		2021		2020
Current federal income tax expense	$	180,635	$	89,143
Current state income tax expense		169		560
Deferred federal income (benefit)		(140,422)		(52,509)
Deferred state income tax (benefit) expense		(24)		114
Total income tax expense	$	40,358	$	37,308

(Continued)

NOTE 9: INCOME TAX EXPENSE (continued)

The tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities at December 31, 2021 and 2020 are presented in the table below.

($ in thousands)		**2021**		2020
DEFERRED INCOME TAX ASSETS				
Loss reserve discounting	**$**	**1,375**	$	15,840
Insurance reserves		**106,476**		**-**
Other		**3,276**		4,697
Deferred income tax assets		**111,127**		20,537
DEFERRED INCOME TAX LIABILITIES				
Unrealized gains on securities and foreign currency differences		**1,733**		6,748
Loss reserve tax reform transiton adjustment		**2,911**		3,639
Insurance reserves		-		49,080
Other		**162**		210
Deferred income tax liabilities		**4,806**		59,677
Net deferred income tax assets (liabilities)	**$**	**106,321**	$	(39,140)

A portion of the annual change in the net deferred income tax liability relates to unrealized gains and losses on debt securities available for sale. The securities related deferred income tax benefit of $5,015,263 in 2021 and deferred income tax expense of $24,388 in 2020 have been recorded in stockholder's equity as a component of accumulated other comprehensive income (loss). Net deferred tax balances as of December 31, 2021 and 2020 include a $11,507 and $384,569 impact as a result of the Company's adoption of ASU 2016-13 Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

Management believes that it is more likely than not that the deferred income tax assets will be realized. Based on the tax allocation method described above, the Company relies on the income of its parent in forecasting its ability to utilize deferred taxes. Parent's taxable income provides capacity to realize those deferred tax assets that would create net operating losses or capital losses recoverable in the consolidated return. Therefore, no valuation allowance is necessary for the separate deferred tax assets. Accordingly, there were no valuation allowances for deferred income tax assets at December 31, 2021 or 2020.

The Company evaluates uncertain tax positions in accordance with FASB ASC 740, *Income* Taxes. Based upon its current evaluation, the Company has recorded reserves for uncertain tax positions of $0 and $0 for the periods ending December 31, 2021 and December 31, 2020, respectively. At December 31, 2021 management does not expect any material change in unrecognized income tax benefits within the next twelve months.

The Company recognizes accrued interest and penalties, as appropriate, related to unrecognized income tax benefits in the effective tax rate. The Company recognized no interest in 2021 and 2020 and the balance of accrued interest was $0 at December 31, 2021 and 2020.

(Continued)

NOTE 9: INCOME TAX EXPENSE (continued)

Management monitors proposed and issued tax law, regulations and cases to determine the potential impact to uncertain income tax positions. At December 31, 2021, management had not identified any potential subsequent events that would have a material impact on unrecognized income tax benefits within the next twelve months.

The Company is not subject to examinations by the Internal Revenue Service for years prior to 2015.

($ in thousands)

Reconciliation to Statutory Rate:		**2021**			2020	
		Amount	**Percent of pretax income**		Amount	Percent of pretax income
Net income before income tax expense	$	**191,634**		$	175,121	
Tax expense at federal tax rate		**40,243**	**21.00%**		36,634	20.92%
State tax expense, net of federal tax expense		**115**	**0.06%**		674	0.38%
Total tax expense	$	**40,358**	**21.06%**	$	37,308	21.30%

NOTE 10: STATUTORY REQUIREMENTS

The Company is licensed as a Class E Long term insurer under the Bermuda Insurance Act 1978, amendments thereto and related Regulations (the “Act”). Under the Act, the Company is required to maintain capital and surplus greater than a minimum statutory amount determined as the greater of (i) the Minimum Solvency Margin (MSM) or (ii) the Enhanced Capital Requirement (ECR), both of which are calculated using the standard Bermuda Solvency Capital Requirement (BSCR) model and statutory accounting principles. At December 31, 2021, the greater of those was $162,081,000. As part of the BSCR, the Company also calculates the Commercial Insurers Solvency Self-Assessment (CISSA) capital to refine the standard capital for the unique risks of the Company. At December 31, 2021, the Company’s CISSA capital and surplus for its long-term business was $92,457,000. Actual available statutory capital and surplus, as determined using the BSCR and Bermuda statutory accounting principles, at December 31, 2021 was $1,616,313,000 and $1,656,392,000, respectively.

Accordingly, since there is sufficient available statutory capital and surplus to satisfy ECR and MSM minimum requirements, there are no restrictions on dividends or return of statutory capital available for distribution, provided all applicable regulatory requirements are satisfied.