UNION HAMILTON REINSURANCE, LTD.

(A wholly-owned subsidiary of Wells Fargo & Company)

FINANCIAL STATEMENTS

As of December 31, 2023 and 2022,
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, 2023 and 2022, and the related statements of income, comprehensive income, changes to stockholder's 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Company adopted ASU 2018-12, Targeted Improvements to the Accounting for Long Duration Contracts, on January 1, 2023 with a transition date of January 1, 2022. Our opinion is not modified with respect to this matter.

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 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 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.

- 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 29, 2024

UNION HAMILTON REINSURANCE, LTD.
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BALANCE SHEETS
December 31, 2023 and 2022

($ in thousands, except par value and shares)		2023		2022
ASSETS				
Cash, cash equivalents, and restricted cash	$	87,575	$	26,016
Total cash, cash equivalents, and restricted cash		87,575		26,016
Debt securities - available-for-sale	$	1,446,247	$	1,447,030
Reinsurance fee receivable		3,563		6,421
Reinsurance premiums receivable		66,469		71,016
Value of business acquired		13,305		14,820
Deferred acquisition costs		4,943		5,506
Affiliate receivable		8,077		3,187
Investment income due and accrued		5,774		6,572
Economic hedges - assets		-		35
Intercompany note receivable		502,001		620,258
Income taxes receivable		4,966		-
Deferred tax asset		35,258		32,814
Market risk benefits		48,804		24,185
Other receivables		6,960		6,942
Total assets	$	2,233,942	$	2,264,802
LIABILITIES AND STOCKHOLDER'S EQUITY				
Liability for future policy benefits	$	44,572	$	46,826
Market risk benefits		85,300		168,833
Reinsurance payable		1,204		688
Income taxes payable		-		3,510
Derivative liabilites - interest rate swaps		5,554		-
Affiliate payable		141		227
Accounts payable		416		498
Total liabilities		137,187		220,582
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		843,053		793,474
Accumulated other comprehensive loss, net		(38,954)		(41,910)
Total stockholder’s equity		2,096,755		2,044,220
Total liabilities and stockholder’s equity	$	2,233,942	$	2,264,802

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, 2023 and 2022

($ in thousands)	2023	2022
INCOME		
Net reinsurance premiums earned	**$ 143,274**	$ 154,589
Reinsurance fee income	**22,739**	29,365
Early termination fees- stop loss	**-**	1,855
Interest income	**103,839**	53,556
Realized loss on sale of securities, net	**(423)**	-
Other miscellaneous income	**-**	(5)
Total income	**269,429**	239,360
BENEFITS AND EXPENSES		
Benefit expense	**5,771**	3,062
Amortization of deferred acquisition costs	**563**	886
Amortization of value of business acquired	**1,515**	2,386
Interest expense	**268**	31
Affiliate expense	**8,838**	7,799
Change in liability for future policy benefits	**(1,862)**	5,672
Unrealized and realized losses on derivative instruments	**307,285**	5,194
Change in market risk benefits	**(121,801)**	(574,960)
General expense	**6,701**	3,157
Total benefits and expenses	**207,278**	(546,773)
Income before income tax expense	**62,151**	786,133
Federal and state income tax expense	**12,572**	164,920
Net income	**$ 49,579**	$ 621,213

See accompanying notes to financial statements.

UNION HAMILTON REINSURANCE, LTD.
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STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2023 and 2022

The following table summarizes the components of other comprehensive income during the periods presented:

($ in thousands)		**2023**		2022
Net Income	**$**	**49,579**	$	621,213
Other comprehensive gain (loss), before tax:				
Change in unrealized capital gains and losses		**16,999**		(86,092)
Change in discount rate for liability for future policy benefits		**392**		9,817
Change in instrument-specific credit risk for market risk benefits		**(13,649)**		70,938
Reclassification of net (gain) to net income, before tax-		**-**		-
Other comprehensive gain (loss), before tax		**3,742**		(5,337)
Income tax loss (benefit) related to other comprehensive income		**786**		(1,121)
Other comprehensive income (loss), net of tax		**2,956**		(4,216)
Total comprehensive income	**$**	**52,535**	$	616,997

See accompanying notes to financial statements.

UNION HAMILTON REINSURANCE, LTD.
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STATEMENT OF CHANGES TO STOCKHOLDER'S EQUITY

Years ended December 31, 2023 and 2022

($ in thousands)	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net	Total stockholder's equity
Balance at December 31, 2021	$ 1,000	$ 1,291,656	$ 357,217	$ 6,519	$ 1,656,392
Cumulative effect of ASU 2018-12	—	—	(184,956)	(44,213)	(229,169)
Adjusted balance at January 1 ,2022	1,000	1,291,656	172,261	(37,694)	1,427,223
Net income	—	—	621,213	—	621,213
Other comprehensive income, net of tax	—	—	—	(4,216)	(4,216)
Balance at December 31, 2022	$ 1,000	$ 1,291,656	$ 793,474	$ (41,910)	$ 2,044,220
Net income	**—**	**—**	**49,579**	**—**	**49,579**
Other comprehensive income, net of tax	**—**	**—**	**—**	**2,956**	**2,956**
Balance at December 31, 2023	**$ 1,000**	**$ 1,291,656**	**$ 843,053**	**$ (38,954)**	**$ 2,096,755**

See accompanying notes to financial statements.

UNION HAMILTON REINSURANCE, LTD.
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STATEMENTS OF CASH FLOWS

Years ended December 31, 2023 and 2022

($ in thousands)		2023		2022
OPERATING ACTIVITIES				
Net income	**$**	**49,579**	$	621,213
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Deferred income taxes		**(3,230)**		135,547
Accretion and amortization of securities discounts and premiums, net		**(20,727)**		(3,880)
Provision for debt securities AFS accumulated credit loss		**-**		(55)
Hedge revaluations		**(353)**		1,634
Realized loss on securities, net of other-than-temporary-impairment		**423**		-
Changes in:				
Reinsurance fee receivable		**2,858**		3,691
Reinsurance premiums receivable		**4,547**		3,930
Value of business acquired		**1,515**		2,386
Deferred acquisition costs		**563**		886
Affiliate payable		**(86)**		84
Interest income due and accrued		**798**		(4,641)
Economic hedge assets		**35**		351
Other receivables		**(18)**		(37)
Liability for future policy benefits		**(2,254)**		(4,146)
Market risk benefits assets		**(24,619)**		(24,185)
Market risk benefits liabilities		**(83,533)**		(621,713)
Reinsurance payable		**516**		(394)
Accounts payable		**(82)**		67
Income taxes receivable/payable		**(8,476)**		(6,714)
Derivative liabilites - interest rate swaps		**5,554**		-
Other comprehensive income, market risk benefits		**(13,649)**		70,938
Other comprehensive income, liability for future policy benefits		**392**		9,817
Net cash (used in) provided by operating activities		**(90,247)**		184,779
INVESTING ACTIVITIES				
Proceeds from maturities of securities		**3,083,548**		1,631,324
Purchases of securities - available-for-sale		**(3,172,472)**		(2,460,963)
Proceeds from sale of securities - available-for-sale		**127,363**		-
Change in intercompany note receivable		**118,257**		(25,231)
Change in affiliate receivable		**(4,890)**		(452)
Net cash provided by (used in) investing activities		**151,806**		(855,322)
Net increase (decrease) in cash, cash equivalents, and restricted cash		**61,559**		(670,543)
Cash, cash equivalents and restricted cash, beginning of year		**26,016**		696,559
Cash, cash equivalents, and restricted cash, end of year	**$**	**87,575**	$	26,016
CASH PAID FOR (RECEIVED)				
Interest received on intercompany receivable	**$**	**(31,269)**	**$**	(16,269)
Income taxes paid		**24,278**		36,087

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 6 in which it reinsures annuities and certain risks associated with life insurance contracts. The Company is no longer entering into any new contracts.

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.

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company recognizes realized gains and losses on the sale of debt securities in realized loss on sale of securities, net using the specific identification method.

Unrealized gains and 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 in realized loss on sale of securities, net 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 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 decrease in 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, CASH EQUIVALENTS AND RESTRICTED CASH

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).

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 unrealized and realized gains on derivative instruments.(see Notes 8 and 9).

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 unrealized and realized gains on derivative instruments.

(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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.

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 unrealized and realized gains on derivative instruments (see Notes 8 and 9).

(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 8 and 9.

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 6 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 subsidiary's 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.

(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 10 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), 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 transitioned all contracts with LIBOR settings to SOFR prior to the June 30, 2023 cessation date.

LIABILITY FOR FUTURE POLICY BENEFITS

A liability for future policy benefits, which is the present value of estimated future policy benefits to be paid to or on behalf of policyholders and certain related expense less the present value of estimated net premiums to be collected from policyholder, is accrued as premium revenues is recognized. The liability is estimated using current assumptions that include discount rate and mortality. These current assumptions are based on judgements that consider UHRL's historical experience, industry data and other factors.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For additional liabilities for annuitization or other insurance benefits, the discount rate assumption is an equivalent single rate that is derived based on A-credit-rated fixed-income instruments with similar duration of the liability. UHRL selects fixed-income instruments that have been rated A-rated by one of the major credit rating agencies such as Moody's, Standard & Poor's, or Fitch. The discount rate assumption is updated quarterly and used to remeasure the liability at the reporting date, with the resulting change reflected in other comprehensive income. For liability cash flows that are projected beyond the duration of market-observable A-credit-rated fixed-income instruments, UHRL uses the last market-observable held level.

MARKET RISK BENEFITS

Market risk benefits are contracts or contract features that both provide protection to the contract holder from other-than-nominal capital market risk and expose Company to other-than-nominal capital market risk. Market risk benefits include certain contract features on variable annuity products that provide minimum guarantees to policyholders, such as guaranteed lifetime withdrawal benefits (GLWBs), guaranteed minimum income benefits (GMIBs), guaranteed minimum accumulation benefits (GMABs) and guaranteed minimum death benefits (GMDBs). Market risk benefits are measured at fair value using discounted cash flow model based on current net amounts at risk, market data, Company experience, and other factors. Changes in fair values are recognized in net income each period with the exception of the portion of the change in fair value due to a change in the instrument-specific credit risk, which is recognized in other comprehensive income.

DEFERRED ACQUISTION COSTS

Deferred acquisition costs (DAC) are costs that are incremental and directly related to the acquisition of new contracts. Such costs include the incremental direct costs of contract acquisition, such as sales commissions , underwriting costs and other costs related directly to acquisition activities that would not have been incurred if the contract had not been acquired.

Contracts are grouped by contract type and issue year into cohorts consistent with the grouping used in estimating the associated liability. DAC is amortized on a constant level basis for the grouped contracts over the expected term of the related contracts to approximate straight-line amortization. For all annuity products, the constant level basis used is account value excluding net credit rate impacts. The constant level bases used for amortization are projected using mortality and lapse assumptions that are based on UHRL's experience, industry data and other factors that are consistent with those used for the liability for future policy benefits. If those projected assumptions are changed in the future, they will be reflected in the cohort level amortization basis at that time.

Amortization of DAC is included in amortization expense. The DAC balance is reduced for actual experience in excess of expected experience. Changes in future estimates are recognized prospectively over the remaining expected contract term.

(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

VALUE OF BUSINESS ACQUIRED

The Company recognizes an intangible asset that arises in the application of GAAP purchase accounting as the difference between the reported value and the fair value of insurance contract liabilities, or comparable amounts determined in purchased insurance business combinations. This intangible asset is referred to as the Value of Business Acquired (VOBA), which is amortized on a basis consistent with DAC, such that it is amortized in proportion to face amount in force for life insurance products and initial deposit in force for annuity products to approximate straight-line amortization.

ADOPTED ACCOUNTING STANDARDS

ASU 2018-12 – In the first quarter 2023, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-12 Financial Services- Insurance-(Topic 944): *Targeted Improvements to the Accounting for Long-Duration Contracts.*

The Company adopted this ASU with retrospective application as of January 1, 2022 , which required revision of prior period financial statements. Prior period risked based capital and certain other regulatory related metrics were not revised.

ASU 2018-12 changes the accounting for long duration insurance contracts or contract features that provide benefit to policyholders in addition to the policyholder's account value. These features, which the ASU defines as market risk benefits, protect the policyholder to some degree from capital market risk and exposes the insurer or reinsurer to that risk. The ASU requires all market risk benefits to be measured at fair values through earnings with changes in fair value attributes to the Company's credit risk recognized in other comprehensive income. The Company reinsures certain variable annuity products for a limited number of insurance clients with guaranteed minimum benefits which are accounted for as market risk benefits under the ASU. The Company is no longer entering into new contracts.

The Company utilizes a discounted cashflow model to value market risk benefits. Market risk benefits are level 3 fair value assets and liabilities because they are valued using significant unobservable inputs. The fair value of the market risk benefits is sensitive to changes in fixed income and equity markets, as well as policy holder behavior (e.g., withdrawal, lapses, utilization rate) and changes in mortality assumptions. Beginning first quarter 2023, the Company used derivative instruments, where feasible, to economically hedge the interest rate and equity market volatility. The fair value of market risk benefits is measured at the contract level and is recognized in market risk benefits (assets) and market risk benefits (liabilities). The Company recognized changes in fair value for market risk benefits, excluding changes in fair value related to the Company's credit risk, in change in market risk benefits, along with changes in fair value of economic hedges. Changes in fair value attributes to the Company credit risk are recorded in other comprehensive income. Upon adoption on January 1, 2023, as required under the ASU, the Company implemented the accounting changes for market risk benefits retrospectively to the earliest period presented which resulted in an after-tax cumulative effect adjustment to reduce retained earnings and accumulated other comprehensive income by $184,955,919 and $44,213,002 , retrospectively, as of January 1, 2022.

(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The ASU also required more frequent updates for insurance assumptions, mandates the use of standard discount rates for traditional long-duration contracts, and simplifies the amortization of DAC and VOBA.

The table below presents the impact of adoption of prior period financial statement line items within the Company's Statement of Income for the twelve months ended December 31, 2022 and the Balance Sheet as of December 31, 2022. These adjustments are also restated in the Statement of Changes to Stockholder's Equity, Statement of Comprehensive Income, and Statement of Cash Flows.

Impact of Adoption of ASU 2018-12 ($ in thousands)	Year ended December 31, 2022 As reported	Effect of adoption	As revised
Selected Income Statement Data			
Net gain (loss) on embedded derivatives	$ (5,716)	$ 5,716	$ -
Total income	(5,716)	5,716	-
Benefit expense	3,062	-	3,062
Amortization of deferred acquisition costs	876	10	886
Amortization of value of business acquired	2,580	(194)	2,386
Change in liability for future policy benefits	98,075	(92,403)	5,672
Change in market risk benefits	-	(574,960)	(574,960)
Total benefits and expenses	104,593	(667,547)	(562,954)
Income before income tax expense	(110,309)	673,263	562,954
Federal and state income tax expense	23,535	141,385	164,920
Net income	89,335	531,878	621,213

($ in thousands)	Year ended December 31, 2022 As reported	Effect of adoption	As revised
Selected Balance Sheet Data			
Deferred acquisition costs	$ 5,641	$ (135)	$ 5,506
Value of business acquired	14,584	236	14,820
Market risk benefits asset	-	24,185	24,185
Deferred tax asset	130,238	(97,424)	32,814
Total assets	2,337,940	(73,138)	2,264,802
Embeded derivatives liabilities	17,905	(17,905)	-
Liability for future policy benefits	637,397	(590,571)	46,826
Market risk benefits liabilities	-	168,832	168,832
Total liabilities	660,225	(439,644)	220,581
Retained earnings	446,552	346,922	793,474
Accumulated other comprehensive income, net	(61,493)	19,584	(41,909)
Total stockholder's equity	1,677,715	366,506	2,044,221
Total liabilities and stockholder's equity	2,337,940	(73,138)	2,264,802

(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The table below presents the transition adjustment required upon the adoption of ASU 2012-12 as of January 1, 2022.

Transition Adjustment of ASU 2018-12 ($ in thousands)	December 31, 2021	Transition adjustment upon adoption	January 1, 2022
Selected Balance Sheet Data			
Deferred acquisition costs	6,517	(125)	6,392
Value of business acquired	17,164	42	17,206
Deferred tax assets	106,321	60,918	167,239
Total Assets	2,219,784	60,835	2,280,619
Embeded derivatives liabilities	$ 12,189	$ (12,189)	$ -
Liability for future policy benefits	45,340	5,630	50,970
Market risk benefits	493,983	296,563	790,546
Total liabilities	563,392	290,004	853,396
Retained earnings	357,217	(184,956)	172,261
Accumulated other comprehensive income, net	6,519	(44,213)	(37,694)
Total stockholder's equity	1,656,392	(229,169)	1,427,223
Total liabilities and stockholder's equity	2,219,784	60,835	2,280,619

SUBSEQUENT EVENTS

We have evaluated the effects of subsequent events that have occurred subsequent to the period end December 31, 2023 and through April 29, 2024, 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, 2023 and 2022. The amortized cost, unrealized gains, and unrealized losses are presented net of ACL.

($ in thousands)		Amortized cost		Gross unrealized gains		Gross unrealized losses		Fair value
December 31, 2023:								
Securities of U.S. Treasury and federal agencies	**$**	**688,239**	**$**	**95**	**$**	**(874)**	**$**	**687,460**
Federal agency mortgage-backed securities		**482,229**		**1**		**(56,173)**		**426,057**
Commercial mortgage-backed securities		**45,838**		**-**		**(3,472)**		**42,366**
Collateralized debt obligations		**290,782**		**130**		**(548)**		**290,364**
Total debt securities	**$**	**1,507,088**	**$**	**226**	**$**	**(61,067)**	**$**	**1,446,247**

($ in thousands)		Amortized cost		Gross unrealized gains		Gross unrealized losses		Fair value
December 31, 2022:								
Securities of U.S. Treasury and federal agencies	$	504,509	$	27	$	(823)	$	503,713
Federal agency mortgage-backed securities		532,278		7		(64,640)		467,645
Commercial mortgage-backed securities		45,534		-		(2,039)		43,495
Collateralized debt obligations		442,548		-		(10,371)		432,177
Total debt securities	$	1,524,869	$	34	$	(77,873)	$	1,447,030

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 amortized cost basis net of allowance for credit losses.

(Continued)

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

($ in thousands)	Less than 12 months Gross unrealized losses	Less than 12 months Fair value	12 months or more Gross unrealized losses	12 months or more Fair value	Total Gross unrealized losses	Total Fair value
December 31, 2023:						
Securities of U.S. Treasury and federal agencies	**$ (399)**	**$ 79,806**	**$ (475)**	**$ 9,498**	**$ (874)**	**$ 89,304**
Federal agency mortgage-backed securities	**-**	**-**	**(56,173)**	**424,764**	**(56,173)**	**424,764**
Commercial mortgage-backed securities	**(581)**	**21,007**	**(2,891)**	**21,359**	**(3,472)**	**42,366**
Collateralized debt obligations	**-**	**-**	**(548)**	**165,390**	**(548)**	**165,390**
Total debt securities	**$ (980)**	**$ 100,813**	**$ (60,087)**	**$ 621,011**	**$ (61,067)**	**$ 721,824**
December 31, 2022:						
Securities of U.S. Treasury and federal agencies	$ (823)	$ 423,912	$ -	$ -	$ (823)	$ 423,912
Federal agency mortgage-backed securities	(47,959)	374,037	(16,681)	91,886	(64,640)	465,923
Commercial mortgage-backed securities	(2,039)	43,495	-	-	(2,039)	43,495
Collateralized debt obligations	(10,371)	432,177	-	-	(10,371)	432,177
Total debt securities	$ (61,192)	$ 1,273,621	$ (16,681)	$ 91,886	$ (77,873)	$ 1,365,507

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, 2023 and 2022. 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, 2023:					
Securities of U.S. Treasury and federal agencies	**$ 677,962**	**$ -**	**$ 9,498**	**$ -**	**$ 687,460**
Collateralized debt obligations	**-**	**145,756**	**144,608**	**-**	**290,364**
Total non-mortgage backed securities	**$ 677,962**	**$ 145,756**	**$ 154,106**	**$ -**	**$ 977,824**
Federal agency mortgage-backed securities					**426,057**
Commercial mortgage-backed securities					**42,366**
Total mortgage backed securities					**$ 468,423**
Total debt securities					**$ 1,446,247**
December 31, 2022:					
Securities of U.S. Treasury and federal agencies	$ 414,250	$ 80,144	$ 9,319	$ -	$ 503,713
Collateralized debt obligations	-	200,575	231,602	-	432,177
Total non-mortgage backed securities	$ 414,250	$ 280,719	$ 240,921	$ -	$ 935,890
Federal agency mortgage-backed securities					467,645
Commercial mortgage-backed securities					43,495
Total mortgage backed securities					$ 511,140
Total debt securities					$ 1,447,030

(Continued)

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

Provision for Credit Losses and Realized Gains and Losses

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

($ in thousands)		**2023**		2022
Provision for credit losses :				
Available-for-sale	**$**	**-**	$	55
Total provision for credit losses		**-**		55
Realized gains and losses:				
Gross realized gains		**-**		-
Gross realized losses		**(423)**		-
Net realized (loss) gain from securities available-for-sale	**$**	**(423)**	$	-

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, 2023, the Company held cash and cash equivalents and investment securities in individual trust accounts in the amount of $730,577,033 which consisted of an amortized cost of $21,182,630 in cash, cash equivalents and restricted cash and $709,394,403 in securities available-for-sale.

At December 31, 2022, the Company held cash and cash equivalents and investment securities in individual trust accounts in the amount of $1,417,636,936 which consisted of an amortized cost of $22,979,704 in cash, cash equivalents and restricted cash and $1,394,657,232 in securities available-for-sale.

(Continued)

NOTE 4: POLICYHOLDER LIABILITIES

LIABILITY FOR FUTURE POLICY BENEFITS AND ADDITIONAL INSURANCE LIABILITIES

The following table summarize balances and changes in the liability for future policy benefits for policies that elected the annuitization option for a GMIB feature previously accounted for as a MRB; and the balances of and change in the liability for future policy benefits upon extinguishment of the account balance for a GMWB feature previously accounted for as an MRB:

($ in thousands)	**December 31, 2023**		December 31, 2022	
Present value of expected future policy benefits	**Annuitization benefits**	**Withdrawal benefits**	Annuitization benefits	Withdrawal benefits
Balance, beginning of year	**$ 46,567**	**$ 259**	$ 50,594	$ 376
Beginning balance at original discount rate	**50,746**	**266**	44,979	362
- Effect of actual variances from expected	**-**	**-**	-	-
Adjusted beginning of year balance	**50,746**	**266**	44,979	362
- Interest accrual	**1,799**	**129**	5,295	6
- Benefit payments[1]	**(5,562)**	**(149)**	(5,700)	(110)
- Reserve change due to inforce change[2]	**1,762**	**158**	6,172	8
Ending balance at original discount rate	**48,745**	**404**	50,746	266
- Effect of changes in discount rate assumption	**(4,561)**	**(16)**	(4,179)	(7)
Balance, end of year	**$ 44,184**	**$ 388**	$ 46,567	$ 259
Net liability for future policy benefits	**$ 44,184**	**$ 388**	$ 46,567	$ 259

[1] Benefit payments: For annuitization benefits, the release of the present value, using the original discount rate, of the expected future policy benefits due to annuitization based on the revised expected assumptions. For withdrawal, the release of the present value, using the original discount rate, of the expected future policy benefits due to withdrawals.

[2] Reserve change due to inforce change: Policy holders added for new annuitization, released for death or at the end of the certain period for benefit payments.

In 2023, the following notable changes were made to the inputs to the Liability for Future Policy Benefits.

- There are no notable changes in 2023. Discount rate used each year is based on the average of the quarter A rated instrument.

In 2022, the following notable changes were made to the inputs to the Liability for Future Policy Benefits.

- Decrease in discount rate due to change from fixed 4% to A bond portfolio earned rate, leading to an increase in the Liability for Future Policy Benefits associated with variable annuities.
- Change in mortality table to A2012 with Scale G-2 improvement led to an increase in the Liability for Future Policy Benefits associated with variable annuities.

(Continued)

NOTE 4: POLICYHOLDER LIABILITIES (continued)

The following table reconciles the net liability for future policy benefits to the liability for future policy benefits in the consolidated balance sheet:

($ in thousands)	**December 31, 2023**	December 31, 2022
Additional liability for annuitization	**$ 44,184**	$ 46,567
Additional liability for withdrawal benefits	**388**	259
Total	**$ 44,572**	$ 46,826

The following table provides the weighted-average durations of the liability for future policy benefits and the additional insurance labilities in years:

	December 31, 2023	December 31, 2022
Additional liability for annuitization	**5.7**	6.0
Additional liability for withdrawal benefits	**2.4**	2.0

The following table provides the weighted-average interest rates for the liability for future policy benefits and the additional insurance labilities in years:

	December 31, 2023	December 31, 2022
Additional liability for annuitization		
Interest accretion rate	**4.0%**	4.0%
Current discount rate	**5.7%**	5.4%
Additional liability for withdrawal benefits		
Interest accretion rate	**4.0%**	4.0%
Current discount rate	**5.7%**	5.4%

The interest rate will use A bond portfolio earned rates as the discount rate. The rate is market-driven and will be updated on quarterly basis.

(Continued)

NOTE 4: POLICYHOLDER LIABILITIES (continued)

MARKET RISK BENEFITS

The following presents the balances of and changes in market risk benefits associated with deferred variable annuities:

($ in thousands)	**December 31, 2023**	December 31,2022
	Variable annuities	Variable annuities
Balance, beginning of year	**$ 144,648**	$ 790,546
Balance, beginning of year, before effect of changes in the instrument-specific credit risk	**165,251**	740,211
Interest accrual[1]	**4,621**	6,183
Attributed fees collected[2]	**114,701**	119,091
Benefit payments[3]	**(6,343)**	(6,991)
Effect of changes in interest rates[4]	**(11,282)**	(730,082)
Effect of changes in equity markets[5]	**(270,449)**	292,528
Effect of changes in equity index volatility[6]	**(9,914)**	30,971
Effect of changes in fixed income markets[7]	**(38,114)**	(25,941)
Time[8]	**46,151**	13,846
Cross effects	**(1,131)**	9,998
Actual policyholder behavior different from expected behavior	**21,802**	(12,774)
Funds related updates [9]	**20,296**	37,156
AV and roll forward	**6,059**	-
Other	**1,803**	(5,401)
Actuarial assumption updates [10]	**-**	(303,543)
Balance, end of year, before effect of changes in the instrument-specific credit risk	**43,451**	165,252
Effect of changes in the instrument-specific credit risk	**(6,955)**	(20,604)
Balance, end of year	**$ 36,496**	$ 144,648
Balance, end of year, net of reinsurance	**$ 36,496**	$ 144,648
Net amount at risk[11]	**$ 3,104,225**	$ 3,319,105
Weighted-average attained age of contract holders	**70**	69

(Continued)

NOTE 4: POLICYHOLDER LIABILITIES (continued)

[1] Interest accrual: The interest accrued, using the original discount rate, on the beginning of year balance before effects of changes in the instrument-specific credit risk.

[2] Attributed fees collected: The attributed fees collected during the period.

[3] Benefit payments: The release of the market risk benefits due to benefit payments based on the expected assumptions.

[4] The expected impact of interest rates based on first and second order movements.

[5] The expected impact of equity based on first and second order movements.

[6] The expected impact of volatility bases on first and second order movements.

[7] The expected impact on first order movements for money market and bond fund non-interest rate movements.

[8] The expected impact of time due to: convexity, implied account value roll-forward and interest rate curve roll-down.

[9] The expected fund basis mismatch.

[10] Assumption updates completed as part of the move to LDTI in 2022.

[11] Net amount at risk: Guaranteed benefit minimum benefits less current account balance at the reporting date.

The following reconciles market risk benefits by amounts in an asset position and in a liability position to the market risk benefits amount in the consolidated balance sheet.

($ in thousands)	**December 31, 2023**			December 31, 2022		
	Asset	**Liability**	**Net liability**	Asset	Liability	Net liability
Variable annuities	**$ (48,804)**	**$ 85,300**	**$ 36,496**	$ (24,185)	$ 168,833	$ 144,648

In 2023, the following notable changes were made to the inputs to the fair value estimates to market risk benefit calculations:

- Risk-free rates decreased at the short end of the curve and increased at the long end of the curve, leading to a decrease in MRB balance.
- Equity markets increased by 20%, leading to a decrease in MRB balance.
- Volatility decreased by 3-5%, leading to a decrease in MRB balance.
- Nonfinancial assumptions were unchanged because the experience did not warrant changes to the assumptions.
- Company's credit spread increased, leading to a corresponding decrease in the market risk benefits associated with variable annuities.

(Continued)

NOTE 4: POLICYHOLDER LIABILITIES (continued)

In 2022, the following notable changes were made to the inputs to the market risk benefit calculations:

- Risk-free rates increased moderately, leading to a decrease in the market Risk benefits associated with variable annuities.
- Equity markets declined by ~20%, leading to an increase in the market risk benefits associated with variable annuities.
- Volatility indices increased leading to an increase in the market risk benefits associated with variable annuities.
- Releasing conservatism in actuarial assumptions lead to a reduction in MRB balances.
- Company's credit spread increased, leading to a corresponding decrease in the market risk benefits associated with variable annuities.

DEFERRED ACQUISTION COSTS

The following tables roll forward the deferred policy acquisition costs for the years ended December 2023 and 2022:

($ in thousands)	Deferred variable annuity	
	December 31, 2023	December 31, 2022
Balance, beginning of the year	$ **5,506**	$ 6,392
Capitalizations	**-**	-
Amortization expense	**563**	886
Experience adjustment	**-**	-
Balance, end of the year	$ **4,943**	$ 5,506

(Continued)

NOTE 4: POLICYHOLDER LIABILITIES (continued)

In 2023, UHRL undertook a review of all significant assumptions and did not make any changes to future assumptions because actual experience for mortality, longevity, and lapses was materially consistent with underlying assumptions.

In 2022, UHRL undertook a review of all significant assumptions and revised its future mortality expectations and future lapse expectations for variable annuity products. While revisions varied by factors including policy duration and issue age, in general, future mortality expectations increased longevity for variable annuities.

BALANCES AMORTIZED ON A BASIS CONSISTENT WITH DEFERRED ACQUISTION COSTS

The following tables roll forward the value of business acquired balance for the years ended December 2023 and 2022:

($ in thousands)	Value of business acquired	
	December 31, 2023	December 31, 2022
Balance, beginning of the year	$ **14,820**	$ 17,206
Capitalizations	**-**	-
Amortization expense	**1,515**	2,386
Experience adjustment	**-**	-
Balance, end of the year	$ **13,305**	$ 14,820

(Continued)

NOTE 4: POLICYHOLDER LIABILITIES (continued)

TRANSITION

UHRL adopted ASU 2018-12 for the liability for future policy benefits, additional insurance liabilities and DAC on a retrospective basis such that those balances were adjusted to confirm to ASU 2018-12 on January 1, 2022. UHRL adopted ASU 2018-12 for market risk benefits on a full retrospective basis. No hindsight was used in the determination of the initial balances.

The following table summarizes the balance of and changes in DAC on January 1, 2022 due to adoption of ASU 2018-12:

($ in thousands)	Deferred variable annuity
Balance, end of December 31, 2021	$ 6,517
Adjustment for removal of related balances in accumulated other comprehensive income	(125)
Adjusted balance, beginning of year January 1, 2022	$ 6,392

The following table summarizes the balance of and changes in VOBA on January 1, 2022 due to adoption of ASU 2018-12:

($ in thousands)	Deferred variable annuity
Balance, end of December 31, 2021	$ 17,164
Adjustment for removal of related balances in accumulated other comprehensive income	42
Adjusted balance, beginning of year January 1, 2022	$ 17,206

(Continued)

NOTE 4: POLICYHOLDER LIABILITIES (continued)

The following table summarizes the balance of and changes in Liability for Future Policy Benefits on January 1, 2022 due to adoption of ASU 2018-12:

($ in thousands)	Deferred variable annuity
Balance, end of December 31, 2021	$ 45,340
Adjustment for removal of related balances in accumulated other comprehensive income	5,630
Adjusted balance, beginning of year January 1, 2022	$ 50,970

The following table summarizes the balance of and changes in the net liability position of market benefits on January 1, 2022 due to adoption of ASU 2018-12:

($ in thousands)	Deferred variable annuity
Balance, end of December 31, 2021	$ 506,172
Adjustment for the difference between carrying amount and fair-value, except for the difference due to instrument specific credit risk.	234,040
Adjustment for the cumulative effect of changes in the instrument-specific credit risk since issuance	50,334
Total adjustment for the difference between carrying amount and fair value	$ 284,374
Balance, beginning of year January 1, 2022	$ 790,546
Less: reinsurance recoverables	-
Balance, beginning of year January 1, 2022, net of reinsurance	$ 790,546

(Continued)

NOTE 4: POLICYHOLDER LIABILITIES (continued)

The following table presents the effect of transition adjustments on stockholder's equity due to adoption of ASU 2018-12:

	January 1, 2022	
($ in thousands)	Retained earnings	Accumulated other comprehensive income
Liability for future policy benefits	$ -	$ (4,449)
DAC/VOBA	(65)	-
Market risk benefits	(184,891)	(39,764)
Total	$ (184,956)	$ (44,213)

For the liability for future policy benefits, the net transition adjustment is related to the difference in the discount rate used pre-transition and the discount rate at January 1, 2022.

For market risk benefits, the transition adjustment to accumulated other comprehensive income relates to the cumulative effect of changes in the instrument specific credit risk between contract issue date and transition date. The remaining difference between the fair value and carrying amount of the market risk benefits at transition, excluding the amounts recorded in accumulative other comprehensive income, was recorded as an adjustment to retained earnings as of the transition date.

For DAC/VOBA, the transition adjustment changed the amortization methodology so the balances are amortized over the length of the underlying contract without accruing interest. The effect of changes in future estimates was recognized over the remaining expected contact term as a revision of the future amortization amounts.

NOTE 5: 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.e Company enters into borrowing and lending agreements with Wells 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 November 2020, 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. Terms of this agreement were changed on April 7, 2022 . The basis for the interest rate is now the daily compounded SOFR plus 107 basis points. There was no intercompany debt to Parent or interest expense in 2023 and 2022.

(Continued)

NOTE 5: AFFILIATED PARTY TRANSACTIONS (continued)

In May 2021, the Company entered into a lending agreement with WFC Holding, LLC. Terms of this agreement allow WFC Holding LLC to borrow up to $1,200,000,000.

At December 31, 2023, the inter-company note receivable was $502,001,060. The basis for the interest rate is the daily compounded SOFR plus 107 basis points or 6.41%. Interest income associated with this note in 2023 was $31,037,329. Additonally, affilate receivable included interest of $2,610,422 at December 31, 2023 in connection with this note.

At December 31, 2022, the inter-company note receivable was $620,258,109. From January 1, 2022 to April 6, 2022, the basis for the interest rate was actual/365 using a one-calendar-month average of 3-month LIBOR plus 64 basis points. Beginning April 7, 2022 the basis for the interest rate is now the daily compounded SOFR plus 107 basis points or 5.13%. Interest income associated with this note in 2022 was $18,624,912. Additonally, affilate receivable included interest of $2,842,327 at December 31, 2022 in connection with this note.

The Company regularly places trades for 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 if the interest rate swaps are in a net positive value position, or places cash on deposit with the counterparty if the interest rate swaps are in a net negative value position. Cash collateral was recorded in affiliate receivable of $92,380,000 and in affiliate payable of $17,340,000 in the balance sheets as of December 31, 2023 and 2022, 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 receives/pays interest on the outstanding balance at the end of every month based on the Fed Funds rate (5.33% as of December 31, 2023 and 4.33% as of December 31, 2022). The Company recognized interest income $625,074 and $0 and incurred interest expense of $267,836 and $30,827 in 2023 and 2022, respectively.

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. In 2023, trades on equity futures were settled with a one day lag and the balance is reported in affiliate receivable if an amount is due to the Company. The balance as of December 31, 2023 was $4,824,705. In 2022, a margin balance was recorded in affiliate receivable on the balance sheets. The balance as of December 31, 2022 was $345,320.

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 8.

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 2023 and 2022 the Company paid $5,043 and $4,264, respectively, which is included in affiliate expense in the statements of income.

(Continued)

NOTE 5: AFFILIATED PARTY TRANSACTIONS (continued)

The Company has a service level agreement with WFS, WFB and WFC. Under this agreement, the Company is obligated to pay WFS, WFB, and WFC 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, 2023 and 2022, $7,679,321 and $6,630,575, 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 $1,153,671 and $1,164,248 respectively, for the year ended December 31, 2023 and 2022.

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 6: REINSURANCE

SURPLUS RELIEF AGREEMENTS

The Company entered into surplus relief reinsurance transactions with U.S. domiciled direct underwriting and reinsurance carriers. The types of business assumed generally consisted of level premium term and yearly renewable term life insurance. Since the Company is not a U.S. authorized reinsurance carrier, the Company provided collateral for reserve credits taken by the ceding companies by placing assets in trust accounts. Until the third quarter of 2023 when the Company terminated the final surplus agreement, the Company continued to own and consolidate its share of the trusts' invested assets on the accompanying balance sheets and recognized 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 $8,394,496 and $11,004,376 in 2023 and 2022, respectively.

(Continued)

NOTE 6: REINSURANCE (continued)

Commitments and assets held in trust under the surplus relief deals outstanding at December 31, 2023 and 2022 are presented in the table below.

($ in thousands)	**2023**	2022
Maximum potential reserve credit	**$ —**	$ 700,000
Outstanding reserve credit	**—**	696,244
Associated assets held in trust (amortized cost)	**—**	769,565

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 $14,344,409 and $18,360,505 in 2023 and 2022, respectively. Additionally, in 2022 the Company received an early termination fee of $1,854,773 on a terminated stop loss contract.

Commitments and assets held in trust under the stop loss contracts outstanding at December 31, 2023 and 2022 are presented in the table below.

($ in thousands)	**2023**	2022
Maximum potential reserve credit	**$ 3,150,000**	$ 3,150,000
Outstanding reserve credit	**2,971,104**	3,028,154
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.

The Company earned reinsurance premiums of $143,274,016 and $154,588,704 in 2023 and 2022, included in net reinsurance premiums earned in the statements of income

NOTE 7: VALUE OF BUSINESS ACQUIRED / DEFERRED ACQUISITION COSTS

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
2024	608	1,637
2025	544	1,465
2026	486	1,308
2027	434	1,169
2028	386	1,039
Greater than 5 years	2,485	6,687

NOTE 8: 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.

The Company adopted ASU 2018-12 Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts and subsequent related updates on January 1, 2023. The ASU changes the accounting for long-duration insurance contracts or contract features that provide benefits to the policyholder in additon to the policyholder's account value. These features, which the ASU defines as market risk benefits, protect the policyholder to some degree from capital markets risk and expose the Company to the risk. The ASU requires all market risk benefits to be measured at fair value through earnings. The fair value of the Company's market risk benefits is sensitive to changes in fixed income and equity markets, as well as policyholder behavior (e.g., withdrawals, lapses, utiliation rate) and changes in mortality assumptions. The market risk benefits are carried at fair value on the balance sheet and included as Market Risk Benefits Assets and/or Market Risk Benefits Liabilities. The Company introduced a new hedging strategy at the beginning of 2023 to mitigate the volality in earnings caused by the fair value movements in market risk benefits. The strategy is designed so that the fair value of the hedge contracts, primarily equity futures and interest rate swaps, economically offset changes in the fair value of market risk benefits.

NOTE 8: 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.

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, 2023 **($ in thousands)**	**Notional Amount**	**Assets**	**Liabilities**
Derivatives designated as hedging instruments			
Interest rate swaps	$ 14,500	$ 600	$ -
Total derivatives designated as hedging instruments		600	-
Derivatives not designated as hedging instruments			
Economic hedges:			
Interest rate swaps	4,548,750	28,374	126,908
Equity futures	1,233,896	-	-
Total derivatives not designated as hedging instrument	-	28,374	126,908
Total derivatives before netting		28,974	126,908
Netting (1)		(28,974)	(121,354)
Total derivatives		$ -	$ 5,554

(1) Represents balance sheet netting of derivative asset and liablity balances and related cash collateral.

NOTE 8: DERIVATIVES (continued)

December 31, 2022 ($ in thousands)	Notional Amount	Assets	Liabilities
Derivatives designated as hedging instruments			
Interest rate swaps	$ 14,500	$ 785	$ -
Total derivatives designated as hedging instruments		785	-
Derivatives not designated as hedging instruments			
Economic hedges:			
Equity options	-	-	-
Interest rate swaps	789,750	32,006	15,416
Equity futures	71,749	-	-
Total derivatives not designated as hedging instruments	-	32,006	15,416
Total derivatives before netting		32,791	15,416
Netting (1)		(32,756)	(15,416)
Total derivatives		$ 35	$ -

(1) Represents balance sheet netting of derivative asset and liablity balances and related cash collateral.

The previous 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. The Company executes all derivative transactions under master netting arrangements and reflects all derivative balances and related cash collateral subject to enforceable master netting arrangements on a net basis within the balance sheet. The "Assets" and "Liabilities" columns in the previous table includes $28,974,207 of gross derivative assets and $126,908,044 of gross derivative liabilities on December 31, 2023 and $32,791,170 of gross derivative assets and $15,415,937 of gross derivative liabilities on December 31, 2022, 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 row titled "Netting" in the table above. 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.

NOTE 8: 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 previous 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.

Fair Value Hedges

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)		**2023**		2022
Total amounts presented in the statement of income	**$**	**66,906**	$	33,935
Gains (losses) on fair value hedging relationships				
Interest contracts				
Amounts related to interest settlements on derivatives		**544**		34
Recognized on derivatives		**(370)**		1,634
Recognized on hedged items		**354**		(1,634)
Net expense recognized on fair value hedges	**$**	**528**	$	34

NOTE 8: DERIVATIVES (continued)

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.

($ in thousands)	Hedged items currently designated		Hedged items no longer designated (1)	
	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, 2023				
Investments securities, Available-for sale (4)	**$ 14,283**	**$ (850)**	**$ -**	**$ -**

(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 $315 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.

($ in thousands)	Hedged items currently designated		Hedged items no longer designated (1)	
	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, 2022				
Investments securities, Available-for sale (4)	$ 13,749	$ (1,122)	$ -	$ -

(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 $396 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.

Trading derivative losses of $307,285,001 and $5,194,273 were reported for 2023 and 2022, respectively. In 2023 and 2022 the broker was Wells Fargo Securities. U.S. Treasury Notes with a fair value of $84,322,289 and $9,419,195, (included in debt securities – available for sale on the balance sheet) are held by the broker at December 31, 2023 and 2022, respectively, for the benefit of the Company. A cash deposit of $345,320 (included in affilate receivables on the balance sheets) was held by the broker at December 31, 2022.

NOTE 9: 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.

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.

(Continued)

NOTE 9: FAIR VALUES OF ASSETS AND LIABILITIES (continued)

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.

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.

(Continued)

NOTE 9: FAIR VALUES OF ASSETS AND LIABILITIES (continued)

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, 2023 and 2022, for each of the fair value hierarchy levels.

($ in thousands)

December 31, 2023	Level 1	Level 2	Level 3	Total
Assets				
Securities of U.S. Treasury and federal agencies	$ 687,460	$ -	$ -	$ 687,460
Federal agency mortgage-backed securities	-	426,057	-	426,057
Commercial mortgage-backed securities	-	42,366	-	42,366
Collateralized debt obligations	-	290,364	-	290,364
Total debt securities	687,460	758,787	-	1,446,247
Total derivative assets - interest rate swaps	-	28,974	-	28,974
Total market risk benefits assets	-	-	48,804	48,804
Total assets	$ 687,460	$ 787,761	48,804	1,524,025
Liabilities				
Total derivative liabilities- interest rate swaps	$ -	$ 126,908	$ -	$ 126,908
Total market risk benefits liabilities	-	-	85,300	85,300
Total liabilities	$ -	$ 126,908	85,300	$ 212,208

(Continued)

NOTE 9: FAIR VALUES OF ASSETS AND LIABILITIES (continued)

($ in thousands)

December 31, 2022	Level 1	Level 2	Level 3	Total
Assets				
Securities of U.S. Treasury and federal agencies	$ 503,713	$ -	$ -	$ 503,713
Federal agency mortgage-backed securities	-	467,645	-	467,645
Commercial mortgage-backed securities	-	43,495	-	43,495
Collateralized debt obligations	-	432,177	-	432,177
Total debt securities	503,713	943,317	-	1,447,030
Total derivative assets - interest rate swaps	-	32,791	-	32,791
Total market risk benefits assets	-	-	24,185	24,185
Total assets	$ 503,713	$ 976,108	$ 24,185	$ 1,504,006
Liabilities				
Total derivative liabilities- interest rate swaps	$ -	$ 15,416	$ -	$ 15,416
Total market risk benefits liabilities	-	-	168,833	168,833
Total liabilities	$ -	$ 15,416	$ 168,833	$ 184,249

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, 2023 and 2022.

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 9: FAIR VALUES OF ASSETS AND LIABILITIES (continued)

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2023 and 2022 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	Net unrealized gains (losses) included in other comprehensive income related to assets and liabilities held at period end
December 31, 2023											
Net market risk benefits	**$**	**(144,648) $**	**121,801**	**(13,649)**	**-**	**-**	**$**	**(36,496)**	**$**	**121,801**	**(13,649)**
December 31, 2022											
Net market risk benefits	$	(790,546) $	574,960	70,938	-	-	$	(144,648)	$	574,960	70,938

The market risk benefits 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. See Note 4 for more information on market risk benefits.

As of December 31, 2023 and 2022, 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 SOFR.

NOTE 10: INCOME TAX EXPENSE

BERMUDA

Bermuda enacted a corporate income tax effective for tax years beginning on or after January 1, 2025. The Company has evaluated the need to establish deferred taxes as a result of this enactment and has concluded no additional deferred taxes are required as the Company has elected under IRC 953(d) to be included in the U.S. WFC consolidated return, and therefore will likely not incur any Bermuda taxes. The Company has no Opening Tax Loss Carryforward and will opt out of the Bermuda Economic Transition Adjustment election.

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, 2023 is presented below.

($ in thousands)	**2023**	2022
STATEMENTS OF INCOME		
Federal income tax expense	**$ 13,179**	$ 165,132
State income tax (benefit)	**(607)**	(212)
STATEMENTS OF COMPREHENSIVE INCOME		
Income tax expense (benefit) related to unrealized gains (losses) on debt securities	**3,570**	(18,079)
Income tax (benefit) expense related to instrument-specific credit risk for market risk benefits	**(2,866)**	14,897
Income tax expense related to discount rate for liability for future policy benefits	**82**	2,061
Total	**$ 13,358**	$ 163,799

(Continued)

NOTE 10: INCOME TAX EXPENSE (continued)

Income tax expense (benefit) for 2023 and 2022 is presented below.

($ in thousands)	2023	2022
Current federal income tax expense	$ **16,409**	$ 29,495
Current state income tax benefit	**(607)**	(122)
Deferred federal income (benefit) expense	**(3,230)**	135,637
Deferred state income tax (benefit)	**-**	(90)
Total income tax expense	$ **12,572**	$ 164,920

The tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities at December 31, 2023 and 2022 are presented in the table below.

($ in thousands)	2023	2022
DEFFERED INCOME TAX ASSETS		
Unrealized losses on securities	$ **12,777**	$ 16,346
Loss reserve discounting	**869**	1,250
Insurance reserves and other statutory adjustments	**24,343**	20,432
Other	**1,252**	2,266
Deferred income tax assets	**39,241**	40,294
DEFERRED INCOME TAX LIABILITIES		
Other comprehensive income on market risk benefits and liability for future policy beneifts	**2,422**	5,206
Loss reserve tax reform transition adjustment	**1,455**	2,183
Other	**106**	91
Deferred income tax liabilities	**3,983**	7,480
Net deferred income tax assets	$ **35,258**	$ 32,814

(Continued)

NOTE 10: INCOME TAX EXPENSE (continued)

A portion of the annual change in the net deferred income tax asset relates to unrealized gains and losses on debt securities available for sale, market risk benefits and liability for future policy benefits. Related deferred income tax expense of ($785,700) in 2023 and deferred income tax benefit of $1,120,541 in 2022 have been recorded in stockholder's equity as a component of accumulated other comprehensive income (loss).

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, 2023 or 2022.

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, 2023 and December 31, 2022, respectively. On December 31, 2023 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 2023 and 2022 and the balance of accrued interest was $0 at December 31, 2023 and 2022.

Management monitors proposed and issued tax law, regulations and cases to determine the potential impact to uncertain income tax positions. At December 31, 2023, management had not identified any potential changes or 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:		**2023**			2022	
		Amount	**Percent of pretax income**		Amount	Percent of pretax income
Net income before income tax expense	$	**62,151**		$	786,133	
Tax expense at federal tax rate		**13,051**	**21.00%**		165,088	21.00%
State tax expense, net of federal tax expense		**(479)**	**-0.77%**		(168)	-0.02%
Total tax expense	$	**12,572**	**20.23%**	$	164,920	20.98%

NOTE 11: 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, 2023, the greater of those was $230,517,000. 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, 2023, the Company's CISSA capital and surplus for its long-term business was $128,657,000. Actual available statutory capital and surplus, as determined using the BSCR and Bermuda statutory accounting principles, at December 31, 2023 was $1,985,594,000 and $2,096,755,000, 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.