

# **Talcott Life Re, Ltd.**

Financial Condition Report

**For the year ended December 31, 2023**

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**TABLE OF CONTENTS**

<b>Description</b>	<b>Page</b>
1. Business and Performance	<a href="#"><u>2</u></a>
2. Governance Structure	<a href="#"><u>4</u></a>
3. Risk Profile	<a href="#"><u>12</u></a>
4. Solvency Valuation	<a href="#"><u>21</u></a>
5. Capital Management	<a href="#"><u>23</u></a>
6. Subsequent Events	<a href="#"><u>25</u></a>
7. Declarations	<a href="#"><u>26</u></a>

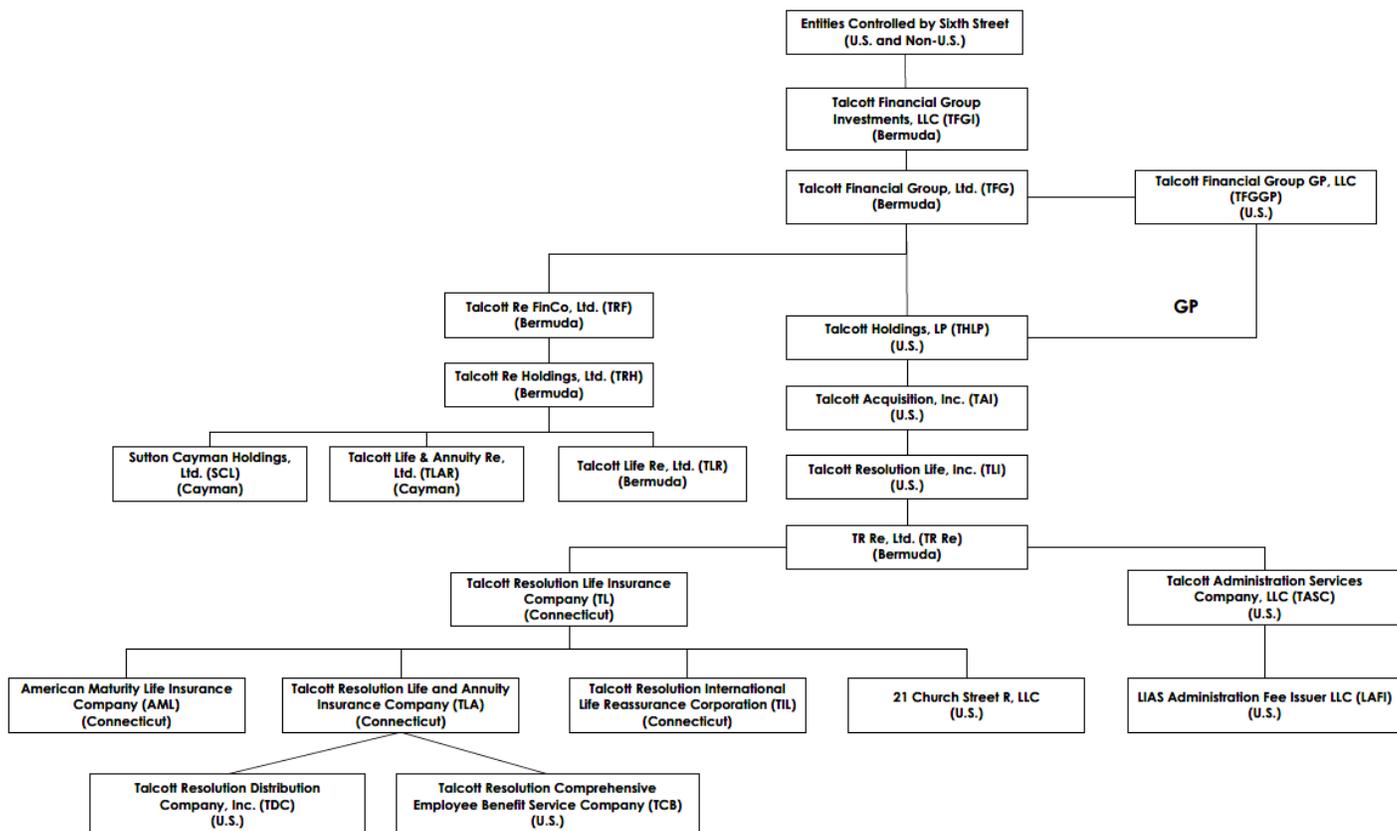
# TALCOTT LIFE RE, LTD

## FINANCIAL CONDITION REPORT DECEMBER 31, 2023

### 1. Business and Performance

a.	Name of the Insurer	Talcott Life Re, Ltd.
b.	Insurance Supervisor	Bermuda Monetary Authority (“BMA”)
	Contact Information	BMA House 43 Victoria Street, Hamilton, HM12
c.	Approved Auditor	Deloitte Ltd., Bermuda
	Contact Information	Corner House 20 Parliament Street, Hamilton, HM 12
d.	Ownership Details	100% owned by Talcott Re Holdings, Ltd.
e.	Group Structure	See exhibit below for Group Structure as of December 31, 2023.

Talcott Life Re, Ltd. (“TLR,” the “Company,” “we” or “our”), a Bermuda exempted company and Class E long term insurer, is a wholly-owned subsidiary of Talcott Re Holdings, Ltd. (“TRH”). The Company's ultimate parent is Talcott Financial Group, Ltd (“TFG”), a leading provider of comprehensive risk solutions for the insurance industry. TLR was incorporated on August 23, 2021, and registered as a Bermuda Class E insurer effective November 24, 2021 under the entity name Sutton Life Re, Ltd. On May 6, 2022, the Company changed its name to TLR, which is the entity name used throughout this report. A Group structure chart details the Talcott Financial Group (“Group”) structure under Talcott Financial Group Investments, LLC (“TFGI”) as at December 31, 2023.



**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**1. Business and Performance**

**f. Insurance Business Written by Business Segment and by Geographical Region for the Reporting Period**

As part of the Company's growth strategy, the Company assumes insurance liabilities on a reinsurance basis from unaffiliated insurers to provide our counterparties with risk management solutions.

On December 30, 2021, the Company entered into reinsurance agreements with Allianz Life Insurance Company of North America ("Allianz") and Resolution Re, Ltd. ("Resolution Re") to assume \$12.7 billion of reserves from Resolution Re on a modified coinsurance basis. Certain of the FIA contracts included living withdrawal benefits.

In 2023, Resolution Re was novated from the reinsurance agreement with the Company, therefore, TLR now assumes the underlying business directly from Allianz. In addition, the basis of reinsurance was changed from a modified coinsurance arrangement to a funds withheld arrangement. This change in the reinsurance arrangement did not have any impact on the Company's financial results.

**g. Performance of Investments by Asset Class and Material Income and Expenses Incurred for the Reporting Period**

Net investment income by asset class:

<i>(before tax, in millions)</i>	<b>For the Year Ended December 31, 2023</b>
Fixed maturities	\$ 15
Funds withheld at interest	438
Short-term investments	21
Investment expense	(14)
<b>Total net investment income</b>	<b>\$ 460</b>

Material Income & Expenses:

<i>(in millions)</i>	<b>For the Year Ended December 31, 2023</b>
<b>Revenues</b>	
Policy charges and fee income	\$ 67
Premiums	1
Net investment income	460
Investment related gains (losses)	320
<b>Total revenues</b>	<b>848</b>
<b>Benefits, losses and expenses</b>	
Benefits and losses	267
Change in market risk benefits	—
Amortization of deferred acquisition costs	9
Insurance operating costs and other expenses	56
<b>Total benefits, losses and expenses</b>	<b>332</b>
<b>Income (loss) before income taxes</b>	<b>516</b>
Income tax expense (benefit)	(230)
<b>Net income</b>	<b>\$ 746</b>

**h. Other Material Information**

For the year ended December 31, 2023, there is no other material information regarding business and performance required to be disclosed for purposes of this Financial Condition Report ("FCR").

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**2. Governance Structure**

**a. Board and Senior Executive**

**i. Structure of the Board and Senior Executive, Roles, Responsibilities and Segregation of Responsibilities**

TLR's business is managed under the supervision of its Board of Directors (the "Board") which is comprised of a combination of executive and non-executive directors. The Board is responsible for setting appropriate strategies and the oversight of the implementation of these strategies. The Board also is responsible for ensuring that Company's management establishes a framework to implement the Company's strategic business objectives. The Board is responsible for providing suitable prudential oversight of the Company's risk management and internal controls framework, including any activities and functions which are delegated or outsourced. The Board has delegated certain risk, investment, underwriting and other responsibilities to the Board of Directors of the Company's parent, TRH. The Board is governed by the Company bye-laws.

**ii. Remuneration Policy and Practices and Performance Based Criteria Governing the Board, Senior Executive and Employees**

The TFGI Remuneration Policy sets the framework for the remuneration of chief and senior executives, key persons in control functions and other employees whose actions may have a material impact on the risk exposure of TFGI and its insurance subsidiaries (individually "OpCos") and executives and Board members of the OpCos ("Key Individuals"). This policy is intended to help ensure that the compensation of Key Individuals does not promote excessive or inappropriate risk-taking, and is in line with the objectives, strategies, identified risk appetite, and long-term interests of the insurer and other stakeholders. The Company's policy is intended to attract, retain and motivate high-performing employees. The annual incentive compensation and the long-term incentive programs are driven by the Group's earnings and returns to shareholders, as well as the accomplishment of qualitative goals that cascade from the enterprise level down to individual goals.

**iii. Pension or Early Retirement Schemes for Members, Board and Senior Executives**

The Company provides all employees, including executive and executive management with pension benefits through a defined contribution pension scheme, administered by a third party. The Company's remuneration program does not include any supplementary pension or early retirement schemes for its non-Executive Directors or its senior executives.

**iv. Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive**

During 2022, the Company entered into Intercompany Liquidity Agreements with various affiliates, permitting the Company to borrow from and loan to their related parties. The Company has not entered into any new intercompany liquidity agreements during 2023.

As of December 31, 2023, the Company had loans to affiliates outstanding of \$253 million with maturity of less than one year, classified as short-term investments on the Company's Balance Sheets.

**b. Fitness and Propriety Requirements**

**i. Fit and Proper Process in Assessing the Board and Senior Executive**

TLR's Fitness and Propriety Policy ensures that TLR's Board members, controllers, the chief and senior executives, the Principal Representative, and third-party service providers possess the professional experience, knowledge and qualifications to discharge duties for and on behalf of the Company and that they are of good repute and integrity. This policy also outlines the associated procedures to evaluate these criteria including a Fitness and Proprietary Self-Assessment which is completed every three (3) years.

**ii. Board and Senior Executives' Professional Qualifications, Skills, and Expertise**

The Board is comprised of three experienced insurance professionals: Rohan Singhal, Robert Stein and Stephen Cernich.

**Board of Directors**

*Rohan Singhal (Non-Executive Director and Chairman)*

Mr. Singhal is a Managing Director with Sixth Street based in London, focused on Sixth Street's investing efforts in financial services, including insurance. Prior to joining Sixth Street in 2013, Mr. Singhal worked in the private equity division of TPG, and before that worked at Goldman Sachs in the Merchant Banking Division. He sits on various boards,

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**2. Governance Structure**

including the supervisory board of the Lifetri Group (a regulated Dutch insurance company), and the board of Clara Pensions (a UK pensions consolidator). Mr. Singhal graduated from University of Cambridge with a M.A. in Economics.

*Robert W. Stein (Non-Executive Director)*

Mr. Stein worked at Ernst & Young for 35 years, and he was the Managing Partner of E&Y's Global Actuarial Services practice and Managing Partner of E&Y's Global Financial Services practice before he retired. In those roles he directed the development of E&Y's advisory practices around Solvency II, IFRS definition and implementation, enterprise-wide risk management, and MCEV development (among many other items). He has provided significant assistance to industry trade associations and regulators concerning key industry issues, including IFRS, Solvency II, capital and reserve standards in the US. Organizations that he has supported include the IASB, US insurance regulators, the Society of Actuaries, the IAIS, CRO Forum, CFO Forum, the CEA, Group of North American Insurance Enterprises (GNAIE), and the China Insurance Regulatory Commission. Mr. Stein subsequently has served (and is currently serving) as an Independent Director on the Board of Directors of publicly listed Assurant Inc., and has served on the Boards of a number of private insurance companies, including Worldwide Reinsurance Ltd., a Bermuda-based life/annuity reinsurance company. In these Board positions he often has served as Chairman of the Audit Committee (for public and private companies). He is a Member of the American Institute of Certified Public Accountants, a Member of the American Academy of Actuaries (MAAA), and a Fellow of the Society of Actuaries (FSA). Mr. Stein holds a B.S.B.A. degree from Drake University.

*Stephen E. Cernich (Director and Chief Executive Officer)*

Mr. Cernich was one of the founders of Athene Holding Ltd and served as the company's initial Chief Actuary. In 2010, he assumed the role as head of Corporate Development and oversaw the company's five acquisitions as well as its largest reinsurance transaction. Mr. Cernich retired from Athene in June 2016. Prior to forming Athene, Mr. Cernich had a 25-year history working as an actuary for a number of life insurance companies, including subsidiaries of XL Capital and Zurich Financial. He has an MBA from the University of Chicago and a Bachelor of Science degree in Mathematics from the University of Notre Dame. He is an Associate of the Society of Actuaries (ASA), a Member of the American Academy of Actuaries (MAAA), and a Chartered Financial Analyst (CFA).

**Executive Management**

The Company's experienced management team includes:

*Stephen E. Cernich - Chief Executive Officer*

Mr. Cernich joined the Company as Chief Executive Officer ("CEO") in 2021. See biography above.

*Huan Tseng - Chief Underwriter and Head of Institutional Markets*

Mr. Tseng joined the Company as Chief Underwriter and Head of Reinsurance in 2021. In November 2023 he was appointed as Chief Underwriter and Head of Institutional Markets in place of his prior title. Mr. Tseng is responsible for leading the corporate development and underwriting efforts. In his role, he oversees the sourcing, development, and structuring of block and flow reinsurance, and mergers and acquisitions. Mr. Tseng has more than 20 years of experience within the industry. Prior to joining Talcott, he was Vice President of Business Development and Structuring at RGA Reinsurance Company. He has extensive experience specializing in reinsurance of variable and fixed annuities, mergers and acquisitions, and financial solutions. He has a Bachelor of Science in Actuarial Science from the University of Western Ontario. He is also a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and an Associate of the Canadian Institute of Actuaries.

*Adam Laing - Chief Financial Officer and Principal Representative*

Mr. Laing joined the Company as Chief Financial Officer ("CFO") and Principal Representative in 2021. Mr. Laing is responsible for helping structure, onboard, and operationalize transactions. In his role, he oversees all aspects of the financials, capital, and operations of our Bermuda entities. Mr. Laing has more than 18 years of financial services experience. Prior to joining the Group, he was Senior Manager at Deloitte and Chief Financial Officer and Co-Chief Operating Officer at Athene Life Re. Mr. Laing has extensive experience in life insurance, annuities, and reinsurance, and has held a variety of financial roles in the U.S. and in Bermuda. He has a Bachelor of Science in Economics and Accounting, a Master of Accounting from Boston College, and is a Certified Public Accountant.

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

## **2. Governance Structure**

### *Sean Voien - Chief Risk Officer<sup>1</sup>*

Mr. Voien was appointed as Chief Risk Officer (“CRO”) in March 2023. In this role, he is responsible for risk management, including governance, monitoring, and reporting of financial and operational enterprise risks. Mr. Voien holds over ten years of experience in the insurance/reinsurance industry. Prior to joining Talcott, Mr. Voien was the Pricing Actuary at Somerset Reinsurance, the Chief Actuary and Director at Gibraltar Reinsurance, the Vice President and Actuary at Prudential Financial, as well as the Head of Japan Capital and Reinsurance Strategy at MetLife Japan. Mr. Voien holds a Bachelor of Science degree from the University of Nebraska-Lincoln. Additionally, as of 2013, he is an active Fellow of the Society of Actuaries (FSA).

### *Matthew J. Poznar - Chief Investment Officer<sup>2</sup>*

Mr. Poznar joined the Company as Chief Investment Officer (“CIO”) in 2021. Mr. Poznar is responsible for the investment portfolios and strategies that support financial commitments to TLR’s contract holders and contribute to overall enterprise returns. He has over 36 years of experience within the industry, and prior to joining TLR, was responsible for managing investment portfolios at Talcott Resolution and Hartford Investment Management Company running its Variable Insurance Trust platform. Mr. Poznar holds the Chartered Financial Analyst designation.

### *Matthew C. Bjorkman - Chief Internal Auditor*

Mr. Bjorkman joined the Company as Chief Internal Auditor (“CIA”) in 2021. Mr. Bjorkman is responsible for developing the strategy of the internal audit department and executing the audit plan. He has 16 years of experience within the industry, and prior to joining TLR, he was responsible for internal audit of Talcott Resolution, a Director at Risk & Regulatory Consulting, LLC and a Senior Manager in the public accounting practice at Deloitte. Mr. Bjorkman is also a Certified Public Accountant.

### *Bobbi Marshall - Chief Compliance Officer*

Ms. Marshall joined the company as Chief Compliance Officer (“CCO”) in 2022. Ms. Marshall is responsible for overseeing the compliance function for the Company. Ms. Marshall began working in the Bermuda re/insurance industry in 2001. She has extensive experience supporting underwriting, legal, compliance, and operations of Bermuda re/insurers, and has held a variety of senior legal management roles in North America and Bermuda including General Counsel for one of Bermuda’s first innovative insurers. Bobbi has a Juris Doctor degree from Osgood Hall Law School.

### *Christopher Plucar - Chief Actuary<sup>3</sup>*

Mr. Plucar joined the Company as Chief Actuary in 2023. In his role, he is responsible for leading the actuarial valuation, modeling, and assumption setting efforts for Bermuda and Cayman regulated entities. He provides oversight of all aspects of reinsurance transactions from an insurance risk, capital solvency, and profitability standpoint. Additionally, he provides leadership and management to the actuarial department and ensures compliance with financial regulations, including material changes resulting from Bermuda Monetary Authority Consultation Papers (CP). Mr. Plucar holds nearly 20 years of industry experience. Prior to joining Talcott, Mr. Plucar was the Senior Vice President and Chief Corporate Actuary at American Equity, the Vice President and Appointed Actuary at Athene, Associate Actuary at Transamerica (formally Aegon USA), and Actuarial Associate at Willis Towers Watson (formally Towers Perrin). Mr. Plucar holds a Bachelor of Arts degree in Mathematics and Economics from Coe College and a Master of Science degree in Actuarial Science from the University of Iowa. Mr. Plucar is an active Fellow of the Society of Actuaries (FSA) since 2008 and an active Member of the American Academy of Actuaries (MAAA) since 2007.

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<sup>1</sup> Christopher Abreu was responsible for the risk function as CRO for the Company through March 20, 2023.

<sup>2</sup> Matthew Poznar resigned from the Company on March 31, 2024 and his position was assumed by James O’Grady effective April 1, 2024.

<sup>3</sup> Stephen E. Cernich was responsible for the actuarial function as Interim Chief Actuary for the Company through September 19, 2023.

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**2. Governance Structure**

**c. Risk Management and Solvency Self-Assessment**

**i. Risk Management Process and Procedures to Effectively Identify, Measure, Manage and Report on Risk Exposures**

The TFGI Board of Directors' Enterprise Risk Committee ("ERC") is responsible for oversight of risk of the enterprise and its direct and indirect subsidiaries as reflected in the Legal Entity Structure, found in Section 1. The ERC is responsible for setting the enterprise risk appetite framework and limits, and cascaded down into the risk appetite limits for its direct and indirect subsidiaries, including TRH and TLR. The ERC oversees the investment, financial, and operational risks, and has oversight of all risks that do not fall within the oversight responsibility of any other standing committee. TRH's Board of Directors provides oversight of these same risk management activities of TRH and its subsidiary TLR. TLR adopted the same Enterprise Risk Management ("ERM") framework approved and implemented by the ERC.

The ERM function is led by TLR's CRO and is independent from the business functions within the Company. The ERM function is charged with providing a comprehensive view of the Company's risks, communicating and monitoring the risk exposures on an individual and aggregate basis and ensuring that the Company's risks remain within its allocated risk appetite and tolerances levels. The ERM function has clear responsibility for maintaining and enforcing the ERM program and its policies.

The enterprise Risk Management Framework ("RMF") consists of a set of risk policies and standards. These are reviewed and approved by the ERC of the TFGI Board of Directors at least annually. The RMF would be reviewed more regularly if the Company was subject to a major change in regulatory requirements, strategy or organizational structure. The RMF set by the ERC of the TFGI Board of Directors is then cascaded down and adopted by its direct and indirect subsidiaries. Risk self-assessment areas are reviewed at the entity specific level and then consolidated and evaluated at the consolidated Company level. The areas covered include Capital Management, Actuarial, Finance, Tax, Legal, Compliance, IT, and Human Resources. The results of the self-assessments are discussed at the Group, respective risk committee and entity level boards as appropriate.

**Risk Governance Framework**

Documentation of TLR's risk governance framework is maintained by ERM and includes four categories: risk policies, processes and procedures, control and limit documents, and committee charters.

**Risk Policies**

Risk policies are formal documents that codify management's awareness of a significant risk or area of risk and articulate management's strategy, specify specific risk limits, and approach to managing that risk. Risk management policies exist for the major risk categories (financial risks, insurance risks and operational risks).

**Risk Committee Structure**

The ERC is responsible for oversight of risk of TFGI and its direct and indirect subsidiaries. The ERC is responsible for setting the enterprise risk appetite framework and limits and cascaded down into the risk appetite guidelines for its direct and indirect subsidiaries including TRH and TLR. The ERC oversees the Group's enterprise financial, operational, and insurance risk exposures, and has oversight of all risks that do not fall within the oversight responsibility of any other standing committee.

TRH's Board of Directors provides oversight of the same risk management activities for TLR.

With assistance from ERM, the functional areas share risk-related ideas and information through an Enterprise Management Risk and Capital Committee ("EMRCC") and sub risk committees that report up to the ERC.

TLR leverages the enterprise RMF and manages and monitors risk through a robust system of sub risk committees, risk working groups, risk policies, process and procedure documents, and control and limit documents.

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

## **2. Governance Structure**

Each committee and working group has a written charter setting forth the committee's authorities, responsibilities, and duties. Annually, each committee reviews and reassesses the adequacy of its charter. In addition to these formal activities, there are informal meetings that provide day-to-day decision-making and management of risk within determined tolerances and limits.

### **Risk Appetite, Tolerances and Limits**

The Company has a formal risk appetite framework that follows the enterprise risk appetite framework. The Company's risk appetite framework is reviewed and approved annually by the Board of Directors of TLR's parent. The risk appetite framework includes a risk appetite statement, risk preferences, risk tolerances, risk limits, and clear delineation of roles and responsibilities. The risk appetite statement is referenced regularly and is used to guide decisions and tolerances.

### **Risk Profile**

ERM maintains a risk inventory of all material risks to which the Company is exposed. Material risk exposures are identified, continually assessed, and reported to management and the Board regularly. Critical monitoring tools facilitate timely and effective risk-based decisions.

The Company groups its risks in three major categories: financial, insurance and operational. Additionally, the Company manages emerging, legal, and management risks across the organization. The TRH Board is informed on company-wide risk exposures and actions taken by management within the comprehensive risk appetite framework to ensure objectives are achieved.

### **Business Risk Self-Assessments**

A Business Risk Self-Assessment ("BRSA") is a process for identifying and evaluating material risks that could affect the achievement of business objectives or strategies or could lead to unacceptable risk. The Company is building out its BRSA processes and evaluations to enable the business to effectively identify and communicate their most material risks to executive management and the Board. Once these processes and evaluations are in place, BRSA's will be reviewed for changes regularly. If changes became material, results would be provided to the TRH Board.

### **Emerging Risk Assessments**

Emerging Risks are defined as those risks that are newly occurring or identified in the external or internal operating environment (e.g. litigation, regulation, new technologies, social developments, market developments) that are not fully understood. These Emerging Risks can be difficult to quantify and can have a significant impact on the risk profile or long-term value of the Company. While Emerging Risks often capture new risk exposures that have not previously been identified, Emerging Risks also can arise from new economic, business or market events and conditions on known risk exposures, especially for market and business-related risks.

The EMRCC participates in discussions around enterprise top emerging risks. Led by the respective CRO, ERM interviews the executive leadership to better understand, and document potential emerging risks TFGI and its indirect and direct subsidiaries including TRH and TLR may face. In addition, ERM reviews emerging risk industry led surveys. ERM then compiles the list of top emerging risks to which the Company's balance sheet is exposed.

### **Top Emerged Risks**

As part of the annual risk appetite work, the Company will conduct analyses to identify and prioritize its 'top emerged' risks. The EMRCC and its supporting committees will assess if any already identified risks should be added to the top emerged risk list. The top financial risks were determined based on the economic and regulatory stress test results and capital outlooks while the top operational risks were determined by ranking the residual risks after controls and mitigation actions are in place.

# TALCOTT LIFE RE, LTD

## FINANCIAL CONDITION REPORT DECEMBER 31, 2023

### 2. Governance Structure

#### Risk Mitigation

Various methods are in place to mitigate and/or manage the Company's material risks including traditional risk management methods (e.g. reinsurance, hedging strategies, etc.) as well as metric reporting methods (e.g. limit testing). As part of its risk management activities, TLR sets forth risk mitigation strategies within its risk policies. –

#### Risk Reporting and Communication

Risk reporting occurs at various levels throughout ERM. Financial, insurance and operational risks are managed and monitored on an ongoing basis and reported to Company leadership, management level risk committees, and to relevant functional areas as appropriate. Centralized aggregate reporting brings together timely critical risk data for the EMRCC and the TRH Board of Directors, to inform appropriate management action and support key decision-making. ERM uses a variety of models and data sources to provide risk reports discussed in detail below.

ERM has developed, implemented, and provided on-going support for executive risk management reports and presentations. Through standardized processes, and tools, ERM has designed reports to clearly communicate the most critical aggregate risks across enterprise. Specifically, ERM produces a quarterly Enterprise Risk Dashboard, which contains high-level aggregate risk metrics to better understand the Company's overall risk position and performance. This information is used to determine if the Company is managing within the identified risk tolerances and limits and to enable decisions about how to strategically manage TLR's risk profile. Breaches are escalated by the CRO to the EMRCC and cured or waived by the responsible committee as laid out in the risk management policies.

Furthermore, ERM performs data analysis to capture more frequent trending at a more granular level. Lower-level detailed risk reports are provided to TLR's leadership team and to relevant functional areas as appropriate.

#### ii. Risk Management and Solvency Self-Assessment Systems Implementation

Functional heads are responsible for day-to-day risk management activities, executive management and the CRO are responsible for facilitating sound risk management practices, and the board and audit functions are responsible for reviewing the effectiveness of the risk controls and risk management practices. The design and operating effectiveness of the framework are subject to review by internal audit, external independent audit. The Company's executive management and the TRH Board regularly review its risk profile to ensure its risk appetite is aligned with its business strategy and risk-return profile.

The CRO reports the results of stress testing and other risk areas to the Board of TLR's parent (TRH), with emphasis on the areas where Group provides capital under its reinsurance and debt covenant agreements. The CRO reports to the Board of TLR's parent (TRH) on its ability to effectively manage liquidity risk, including activity related to all reinsurance contracts and investment compliance reporting. The Company's CRO is an active member of the internal management risk committees, and is directly involved with the Company's Treasury function regarding capital and liquidity management. This includes the monitoring and use of various inter-company lending facilities, monitoring of liquid assets, and monitoring the use and allocation of capital to current and new operations.

TLR's solvency self-assessment process is performed in conjunction with the other Group solvency self-assessment reports and is an integral part of the overall risk governance framework. ERM is responsible for drafting the Commercial Insurer's Solvency Self-Assessment ("CISSA") report and implementing the processes and procedures described in the risk management framework section with the support from subject matter experts from each functional area. The CISSA report includes a description of TLR's risk governance documentation, risk appetite and limits, identification, management, monitoring and reporting of key risks as well as an overview of TLR's risk capital and prospective solvency. Every year, the CISSA report is revised to include up to date information on TLR's risk management framework.

#### iii. Relationship between the Solvency Self -Assessment, Solvency Needs, and Capital and Risk Management Systems

TLR's risk management framework considers the various regulatory lenses, and TLR's capital management philosophy is to ensure adequate capitalization and liquidity of its business operations and sufficient financial flexibility across the

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

## **2. Governance Structure**

enterprise during business-as-usual (“BAU”) as well as adverse economic conditions. Risk tolerances provide comprehensive aggregate boundaries that are not only concrete and practical, but also consistent and aligned with the Company’s risk appetite objectives. Risk tolerances are put in place to assure balance sheet resilience in the face of stress events and to protect operational longevity. The Company sets risk tolerances under the Bermuda Solvency Capital Requirement (“BSCR”) and economic valuations. The Company uses the BSCR to determine the required CISSA capital and maintains an internal model to determine the economic value of the business.

### **iv. Solvency Self-Assessment Approval Process**

One of the responsibilities of the TRH Board of Directors includes oversight of all risk exposures, risk management activities, and capital structure for TRH and its subsidiary, the Company. As a result, the TRH Board reviews the CISSA report prior to the submission.

Subject matter experts have been identified as owners for their section of the CISSA report and provide inputs to the ERM team, which is responsible for the drafting of the document. The CRO of TLR reviews the CISSA report with the executive leadership team, which then recommends the CISSA report for approval to the TLR Board.

### **d. Internal Controls**

#### **i. Internal Control System**

The Company adopted the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) 2013 framework as criteria for assessing the effectiveness of the system of internal controls to achieve objectives as defined by management. The COSO 2013 framework consists of the following:

1. **Control Environment** - The set of standards, processes and structures that provide the basis for carrying out internal controls across the organization. This includes our Code of Ethics, Board Governance, and the Ethics Hotline;
2. **Risk Assessment** - A dynamic and iterative process for identifying and analyzing risks to achieve our objective, which is to ensure we have an adequate system of Internal Controls. The risk assessment defines the scope of our Internal Controls Program;
3. **Control Activities** - The actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of our objective are carried out. This is the largest part of our program as it includes all the processes and key controls within the various business units (e.g., Finance, Actuarial, Operations, IT, Human Resources, Legal, Corporate Development, Internal Audit and Risk Management);
4. **Information and Communication** - These are necessary to carry out internal control responsibilities; and,
5. **Monitoring Activities** - Ongoing evaluations to ascertain the adequacy of our internal controls and communication of deficiencies to executive management and the Board.

#### **ii. Compliance Function**

The compliance function oversees compliance activity for the Company and promotes a sustainable corporate culture of compliance and integrity that ties into the larger Group. Compliance develops policies, procedures and processes that impact operations, and include compliance monitoring, testing and reporting (including a plan to address any deficiencies or non-compliance that may be identified); oversees processes for regulatory monitoring; and supports management in implementing any new rules, regulations, training, policies, procedures and controls. Compliance assists in the identification and analysis of potential risks associated with non-compliance. Furthermore, Compliance maintains mechanisms for staff to confidentially report concerns regarding compliance deficiencies and breaches. The function also acts as a channel of communication to receive, review, evaluate and investigate compliance issues or direct such matters to the appropriate department for investigation and resolution.

#### **e. Internal Audit**

The internal audit function has an audit charter to document its mission, independence, scope, accountabilities, responsibilities, authorities and standards. Internal Audit reviews the charter each year and reports any material changes to the Board of Directors for approval.

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**2. Governance Structure**

Internal Audit prepares its internal audit plan to ensure assessment of governance and controls of key risk areas at an appropriate interval, taking into consideration the Company's nature, scale and complexity. This plan is based on an assessment of both the inherent risk and the adequacy of controls and is reviewed at least annually and approved by the Board.

To ensure internal audit remains independent, its employees are not authorized to perform any operational duties or approve any transactions in the organization; internal audit has unrestricted access to the Board, management, and all areas of the organization.

**f. Actuarial Function**

Christopher Plucar is a qualified actuary who oversees the main actuarial functions of the Company, with the exception of the Approved Actuary role. The Approved Actuary role is currently performed by Deloitte. The actuarial function is supported by in-house actuarial staff, plus affiliate and third-party actuarial service providers as needed. The Company ensures the fitness and propriety of any individuals performing the actuarial function as well as their tools, methods, and assumptions.

**g. Outsourcing**

**i. Outsourcing Policy and any Key or Important Functions that have been Outsourced**

As of December 31, 2023, the Company had no direct employees as it is managed by TRH, the Company's direct parent. Service Agreements in place between TRH and the Company allow TRH to furnish support services and officers in this regard, as reasonably required by the Company. TLR has documented requirements to ensure appropriate oversight of outsourced vendor relationships and performance, including affiliated entities within the Group and/or entities external to the Group. The Board maintains oversight and accountability for all outsourced functions as if these functions were performed internally and subject to Company standards on governance and internal controls.

**ii. Material intra-group outsourcing**

The Company relies on services performed by affiliates to support certain functions, including investment management, actuarial modeling, financial reporting and information technology.

**h. Other Material Information**

For the year ended December 31, 2023, there is no other material information regarding governance structure required to be disclosed for purposes of this FCR.

# TALCOTT LIFE RE, LTD

## FINANCIAL CONDITION REPORT DECEMBER 31, 2023

### 3. Risk Profile

TLR has exposure to a variety of financial risks, insurance risks, and operational risks due to the nature and size of its business. Financial risks include credit (including counterparty), interest rate, and equity risk. Liquidity risk is also categorized as a financial risk. Financial risks include direct and indirect risks to the Company's financial objectives coming from events that impact market conditions or prices. Some events may cause correlated movement in multiple risk factors.

#### 1. Credit Risk

Credit risk is defined as the risk to earnings or to capital due to the uncertainty of an obligor's or counterparty's ability to meet its obligations in accordance with agreed upon terms. Credit risk is comprised of the risk of change in credit quality or credit migration, risk of loss from default, or a loss of capital due to changes in credit spreads. The sources of TLR's credit risk arise from investment holdings.

#### Management

The Company manages credit risk on an ongoing basis using various processes and analyses. Investment exposures are most commonly reduced through the sale of exposure or through hedges using single name or basket credit default swaps. Derivative counterparty credit risk is managed through diversification, collateral requirements, and ongoing surveillance of the credit health of individual counterparties. Comprehensive Investment Management Agreements ("IMA") have been established with TLR's asset managers and investments which fall outside the guidelines of an IMA are subject to review by the Investment Management team before inclusion in the portfolios. Reinsurance credit exposures managed through the posting of collateral, funds held, or letters of credit. Constraining activity through the adoption of limits as described in the "Limits, Testing and Metrics" section below.

#### Limits, Testing, and Metrics

Counterparty credit risk, issuer concentration exposures, ratings migration risk, default risk, and spread risk are addressed. Measures look at risk both on a stand-alone and aggregate portfolio exposure basis. TLR utilizes both a bottom up and top-down approach to managing and controlling credit risk exposure. The top-down metrics include limits for BSCR after stress, and aggregate portfolio risk through an average rating constraint. TLR's bottom-up metric, the Single Issuer limits, helps ensure the portfolio stays well diversified.

#### Monitoring and Reporting

Credit risks are managed on an ongoing basis through various processes and analyses. Fundamental credit analyses, supported by credit ratings and various risk tools including credit watch lists to measure the spread, migration, and default risk are leveraged on a regular basis. The Company monitors and reviews its portfolio's credit quality and sector allocation at least monthly to ensure that the asset manager stays within the investment portfolio guidelines; in times of heightened stress this could include review and reduction of specific sector holdings. Aggregate counterparty credit quality and exposure is monitored daily. All limit breaches are escalated to the CRO. If necessary, they will also be escalated to the responsible management and Board-level committees.

#### 2. Interest Rate Risk

Interest rate risk is defined as the exposure to adverse changes to the Company's surplus levels and/or future income arising from movements in interest rates. It encompasses exposures with respect to changes in the level of interest rates, the shape of the term structure of interest rates, and the volatility of interest rates. TLR has exposure to interest rate risk primarily arising from its fixed maturity investments and its liabilities.

TLR's investment portfolios primarily consist of investment grade fixed maturity securities. The fair value of these and other invested assets fluctuate depending on the interest rate environment and other general economic conditions. TLR has additional interest rate exposure stemming from the riders on the FIA business that TLR has reinsured.

TLR's liability obligations may fluctuate depending on the interest rate environment and other general economic conditions. Policyholder behavior can vary because interest rate changes can influence whether a policyholder decides to persist or surrender their policy. This variance in policyholder behavior can potentially impact near-term cash obligations, solvency positions, and future income.

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

### **3. Risk Profile**

#### **Management**

Several metrics are used by TLR to manage Interest Rate Risk inherent in its invested assets and interest rate sensitive liabilities. Investment portfolio guidelines are established to manage the duration and convexity characteristics of the assets consistent with liabilities in order to mitigate interest rate risk. Stress testing and monitoring risk exposure as described in the “Limits, Testing and Metrics” section below.

#### **Limits, Testing, and Metrics**

TLR utilizes stress testing under two distinct metrics to determine limits for controlling interest rate risk exposure. These metrics are BSCR and DV01.

#### **Monitoring and Reporting**

The Company’s Interest Rate Risk exposure and scenario analysis are included in the Enterprise Risk Dashboard. Lower-level risk reporting captures relevant risk metrics at the individual investment, investment sector, portfolio group and enterprise level. Portfolio management, risk reporting and compliance monitoring align with the segmentation structure and enterprise limits. All deviation from guidelines and limit breaches that occur will be escalated to the relevant risk committee.

### **3. Equity Risk**

Equity risk is the risk of financial loss due to changes in the value of global equities or equity indices, alternative investment models, private equities, hedge funds and real estate. This applies to any transactions, products, agreements, liabilities, or assets of the Company with either direct or derivative exposure to equities, equity indices, or other equity-like instruments.

#### **Management**

The Company reinsures blocks of fixed index annuities, wherein policyholders receive index credits based on the performance of an equity-related index in lieu of traditional interest. To mitigate exposure to equity returns, the Company has a hedging agreement with the cedant. This agreement significantly reduces the Company’s risk, except for potential residual equity risk in case of long-term equity underperformance, which could lead to the value of policyholder guarantees exceeding account value, for certain riders.

#### **Limits, Testing, and Metrics**

TLR utilizes stress testing under two distinct metrics to determine limits for controlling equity risk exposure. These metrics are BSCR and equity delta.

#### **Monitoring and Reporting**

For fixed annuities, management reviews the effectiveness of the hedges by comparing the hedge market value changes and payoffs against changes in the index interest credits on the underlying policies and equity linked guarantees.

### **4. Liquidity Risk Management**

Liquidity risk is the risk to current or prospective earnings or capital arising from the Company’s inability or perceived inability to meet its contractual cash obligations at the legal entity level without incurring unacceptable costs and without relying on uncommitted funding sources. Liquidity risk includes the inability to manage unplanned increases or accelerations in cash outflows, increases in required collateral for reinsurance agreements or derivatives, decreases or changes in funding sources, and changes in market conditions that affect the ability to sell assets to meet obligations with minimal loss in value.

Sources of Liquidity Risk include:

- Funding risk - the gap between sources and uses of cash under BAU and stressed conditions taking into consideration structural, regulatory, and legal entity constraints.
- Company specific liquidity risk - changes in conditions that affect TLR’s ability to sell assets or otherwise transact business without incurring significant loss.

# TALCOTT LIFE RE, LTD

## FINANCIAL CONDITION REPORT DECEMBER 31, 2023

### 3. Risk Profile

- Market liquidity risk - changes in general market conditions that affect the Company's ability to sell assets or otherwise transact business without incurring a significant loss in value.

#### Management

The Treasury Function maintains resources and capabilities to meet funding needs of the enterprise consistent with requirements specified in the Liquidity Risk Management Policy and is required to report the status of the contingency funding plan to the Enterprise Finance and Investments, and Capital Working Group at least annually.

To facilitate liquidity management, the Company has established short-term borrowing facilities with affiliates. Daily cash management by the Treasury focuses on positioning cash for operational needs and collaborates with external portfolio managers when necessary. Various departments, including Treasury, Investment Management, ERM, and external portfolio managers, utilize daily operating and investment cash forecasts, along with monthly cash projections, to effectively manage cash and short-term securities.

The Enterprise Liquidity Risk Management Policy oversees the enterprise's liquidity risk profile in accordance with approved policies and risk tolerances by the EMRCC. This policy sets specific risk limits for significant subsidiaries and the holding company under both baseline and stress scenarios.

Additionally, beyond these established processes, the Company maintains access to additional liquidity sources for increased flexibility when needed.

#### Limits, Testing, and Metrics

TLR's invested assets are evaluated and ranked with regard to their liquidity characteristics. Sectors that generally lack market transparency or have potential for severe market value loss in stress scenarios are excluded from the definition of liquid assets. Liquid assets are then classified into tiers based on expected ease and certainty of valuation during times of crisis, measured by expected bid-ask spreads in a crisis.

In stress scenarios, the market value of liquid assets is calculated by applying an interest rate shock and credit spread shock. Funding obligations are considered based on legal entity and product line.

Limits on minimum holdings and usage of tiered assets are determined through stress testing to ensure that under stressed market scenarios, the Company remains able to meet its cash flow requirements.

#### Monitoring and Reporting

Ongoing monitoring and reporting requirements have been defined to assess Liquidity Risk across the Company and measure against established risk limits.

The liquidity needs are reviewed daily and stress testing results are reviewed monthly and if needed, a course of action for any limit violation is determined. The limit violation escalation and remediation process are discussed in the Liquidity Risk Management Policy.

### 5. Insurance Risks

Insurance risks exist in the form of adverse policyholder behavior, mortality, and longevity risks that can adversely and materially affect the Company's profitability and/or capital position.

Policyholder behavior risk is the risk that policyholders utilize benefits within annuity contracts in a manner or magnitude different than the Company's best estimate. In general, policyholder behavior risk is related to how well the Company can predict how policyholders will utilize the options embedded within their contracts under different market conditions. Greater efficiency by policyholders, including adverse longevity, generally leads to higher claims. This risk is exacerbated in adverse market environments because the guaranteed benefits of the annuity contracts become more valuable and behavior assumptions could be more volatile and anti-selective. TLR models the impact of behavior changes in different market environments, but the predictive nature of these models does expose the Company to risk if the predictions are incorrect.

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

### **3. Risk Profile**

Mortality risk is a contingent risk for Fixed Indexed Annuity businesses. If a policyholder has not yet taken benefits or if the benefit stream is less than the expected revenue generated by the assets, higher mortality can produce unfavorable financial impacts.

Longevity risk is a contingent risk for Fixed Indexed Annuity businesses. The impact of higher longevity only impacts this business i) to the extent the guarantees withdrawal benefit amounts exceed the annuity account value during income phase or ii) policyholders annuitize their contracts.

#### **Management**

TLR in conjunction with its cedent, has taken both proactive and reactive steps to manage policyholder behavior, mortality, and longevity risks within contractual, practical and economic limitations. Mitigation strategies include underwriting activities, product design considerations, management of non-guaranteed elements, strategic reinsurance initiatives, and the implementation of buyout offers when deemed appropriate,

#### **Limits, Testing, and Metrics**

The Company carefully underwrites the impact of material insurance risks. Consideration is also given to features or benefits in the underlying contracts that would offset or magnify existing risks or exposures. TLR does not actively have specific limits or metrics associated with the management of insurance related risks; but considers the experience monitoring, experience studies, and stress testing functional work as an appropriate way to control for this risk.

#### **Monitoring and Reporting**

The Company monitors the most important elements of policyholder behavior regularly. On a regular basis, the Enterprise Insurance Risk Working Group which includes senior leaders from the Actuarial, Finance and Risk functions meets to determine whether experience is significantly different than best estimate assumptions. If it is, there would be a special model update for assumption changes. Annually, the Company completes a comprehensive assumption study and incorporates the results into the liability models for reserves, capital, and all risk models for risk exposure calculation.

The Company monitors mortality experience periodically and completes mortality studies every few years. Furthermore, the Company closely monitors the impacts of the pandemic on insurance risks, and provides periodic updates to executive management, the board, and regulators.

### **6. Operational Risks**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. Operational risk is inherent in all aspects of TLR's business and functional areas. Operational risk can result in financial loss, disruption of the Company's business, regulatory actions or damage to the Company's reputation.

In calculating its BSCR, the Company has assigned itself a higher operational risk charge in recognition of the need for further development and maturation of the Company's various business functions and control processes.

#### **Management**

Responsibility for day-to-day management of operational risk lies within each functional area. ERM is responsible for establishing, maintaining and communicating the framework, principles and guidelines of the Company's operational risk management program. In addition, ERM as a second line of defense provides an independent enterprise view and assessment of operational risks that the Company faces. Operational risk mitigation strategies include establishing policies and monitoring risk tolerances and exceptions, conducting BRSA's, validating existing crisis management protocols, identifying and monitoring emerging operational risks, and purchasing insurance coverage.

#### **Appetite, Tolerances and Thresholds**

TLR manages operational risk by complying with legal and regulatory requirements, and for other operational risks by balancing potential losses or reputational damage with the costs of mitigation.

The nature of operational risk necessitates different approaches to measuring risk appetite. Operational risk is expressed quantitatively and qualitatively through loss events, risk and control assessments, scenario analysis, and qualitative statements as appropriate.

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**3. Risk Profile**

**Monitoring and Reporting**

Operational risk owners and managers systematically utilize information on both internal and external events to improve risk measurement, minimize losses, understand root causes and better manage risks. Internal loss data collection and analysis allows the firm to understand risk exposures and the effectiveness of internal controls by looking at historical loss experience. External loss data collection, where possible, and analysis allows the Company to benchmark against the industry, identify possible weaknesses in the Company’s existing control environment and understand potential future losses which have not previously been experienced.

Key Operational Risks	Governance	Management
Cyber & Information Protection	<ul style="list-style-type: none"> <li>Established governance routines that promote an adaptive approach for assessing and managing risks</li> <li>‘Defense-in-depth’ strategy that uses multiple security measures to protect the integrity of the Company’s information assets, aligned with the National Institute of Standards and Technology (“NIST”) Cyber Security Framework.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing risk assessments including assessments of critical third parties, external penetration testing, application security testing, incident response tabletop exercises, vulnerability scanning, social engineering testing (Phishing), and cyber war game exercises. Assessment results are used to inform a multi-year roadmap</li> <li>Update security tools with available Indicators of Compromise (IOCs) and/or Indicators of Attack (IOAs)</li> <li>If a patch is required, we coordinate the patch with the appropriate Infrastructure or application teams.</li> </ul>
Business Resiliency	<ul style="list-style-type: none"> <li>Program consistent with industry best practices that provides assurance that the Company is prepared for, and can recover from, emergencies and disasters</li> <li>Foundational elements: business resilience program, business continuity plans, IT disaster recovery plans, a pandemic response plan, an Emergency Response Plan, a Crisis Management Team, and a Crisis Management Plan</li> <li>Centralized oversight and governance by the Business Resiliency Office (“BRO”)</li> <li>Focus on program strategy, oversight and governance and for providing essential leadership to the Company’s functional areas in executing response and recovery capabilities.</li> </ul>	<ul style="list-style-type: none"> <li>Established internal standards provide structure and institute necessary controls that protect employees, business operations and IT from business disruption.</li> <li>Proactively monitor events at the local, regional, national, and international levels</li> <li>Business Continuity Plans are updated annually and are maintained across business units in accordance with established organizational policies and standards to ensure a constant state of readiness</li> <li>Crisis Management Plan provides the management structure, key responsibilities, emergency assignments, and general procedures to follow during and after a crisis event</li> <li>Business Resiliency exercises will occur periodically</li> <li>IT Disaster Recovery testing for infrastructure and critical applications are scheduled on an annual basis.</li> </ul>

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**3. Risk Profile**

Financial Reporting

- When significant operational issues arise within the business, they are escalated to the Enterprise Finance and Investments, and Capital Working Group as well as the Enterprise Risk Governance Working Group through the established risk escalation and acceptance process. The EFICWG discusses market, credit, and liquidity related issues while the ERGWG discusses operational risk and control issues. If these issues are deemed significant, they are escalated to the respective entities' Board of Directors.
- Talcott Financial Group has over 200 internal controls over financial reporting spanning processes within actuarial, investment management, finance, operations and information technology that support the generation of the U.S. GAAP and respective statutory financial statements for all entities within our organizational structure
- This population of internal controls over financial reporting are tested annually by the Internal Audit function, which supports management's ability to make assertions on the effectiveness of the financial reporting internal control environment to the respective legal entity Board of Directors.

Outsourcing Policy

- The Company's Outsourcing Policy establishes key and minimum requirements to ensure robust controls and governance for any service outsourcing, whether internal or external
- The Outsourcing Policy defines concise procedure to identify, assess, control, and monitor material outsourcing arrangements. It also establishes clear responsibilities for monitoring service providers and outsourced functions
- In compliance with the Outsourcing Policy, due diligence assessments are conducted and maintained for critical service providers
- Records are maintained in Archer, our integrated risk management platform, capturing third-party information, risks, underlying agreements and documenting security assessment results, related findings, and remediation efforts.
- The Outsourcing Policy ensures that outsourcing maintains direct management responsibility upholding service quality, control environment and governance
- Prior to and regularly after initiating outsourcing, the company conducts thorough risk evaluations and diligence assessments including credit reviews
- Material outsourcing arrangements have clear and detailed agreements, including responsibilities and terms, with provisions for regular reviews based on risk levels and activity nature
- Boards and senior management are responsible for the effective management of outsourcing risks, involving the approval and regular review of the Outsourcing Policy, providing clear guidance through annual training; and overseeing regular reporting on outsourced activities, incidents, and testing as applicable.

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

### **3. Risk Profile**

#### Model Risk

- Model Risk Management (MRM) policy sets terms to identify, assess, control, manage, and report on Model Risk, aiming to enhance efficiency, promote organizational awareness, and instill confidence in output reliability
- The MRM Policy and Model Risk area are evolving, with a defined roadmap in place to achieve the target state
- Work to properly resource the execution of policies and standards is ongoing, inclusive of the following:
  - Ensuring adequate 2nd line resources to own MRM policy, standards, procedures, and 2nd line decision-making
  - Putting into place effective EMOC oversight of critical Model validation, governance, risk, activities, reviewing and approving policy updates, and facilitating information escalation
  - Ensuring resource capacity for Model “Stewards” and “Owners” to act as model risk policy subject matter experts and designated owners of the models
  - Executing the responsibilities of the Business Owners and Users roles
  - Executing the responsibilities of the Model Developers and Tester roles.
- Models and Tools are governed by comprehensive oversight, policies, procedures, controls, and standards in order to help mitigate potential adverse consequences from using models in critical business decisions and reporting financial results
- Using a three-line defense approach, model risk is managed through segregation of duties and independence among key model stakeholders
- Models are identified and documented in a central Model Inventory that is owned by the Head of MRM including model categorization using a risk rating based on Model Impact and Complexity and reviewed and recertified annually
- Documentation and controls for L1/L2 models and critical tools within the model risk management master model listing
- A model Validation schedule is in place, in order of complexity and importance. Model Validation includes reviewing the use of data, assumptions, model calculations, reasonableness of output, model uses and documentation.

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**3. Risk Profile**

Legal and Regulatory Risk	<ul style="list-style-type: none"> <li>• Managed across the organization and comprised of:               <ul style="list-style-type: none"> <li>◦ Emerging Regulation or Legislation Risk</li> <li>◦ Compliance Risk</li> <li>◦ Legal Proceedings or Litigation Risk</li> </ul> </li> <li>• Potential for material adverse impact on the business, financial condition, results of operations, liquidity, and required capital levels</li> <li>• Jurisdictional laws and regulations are subject to change and continuous evolution.</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly monitoring process involving legal and accounting professionals, which               <ul style="list-style-type: none"> <li>◦ Identifies outstanding corporate litigation and regulatory matters posing a reasonable loss possibility</li> <li>◦ Evaluates the facts and changes since last review</li> <li>◦ Determines the amount to be recorded and the appropriate disclosure</li> </ul> </li> <li>• Routine environment scans identify Legal and Compliance risk matters</li> <li>• Monthly regulatory working group meetings to effectively monitor and report on regulatory changes that may potentially result in a financial or operational impact to the organization</li> <li>• Compliance participates in oversight of third-party administrators; the annual monitoring plan includes periodic due diligence review of key outsources service providers</li> <li>• Legislative and regulatory developments reports from service providers</li> <li>• Interactions with several advisors, industry groups, and committees</li> <li>• Interaction with the regulator in Bermuda with respect to Bermuda regulatory or legislative developments</li> <li>• The Board and/or leadership routinely meet with the Bermuda Monetary Authority</li> <li>• The Board takes appropriate action as necessary to demonstrate and document its compliance with the Bermudian laws and rules</li> </ul>
Management Risk	<ul style="list-style-type: none"> <li>• Includes strategic risk, tax risk, and reputational risk</li> <li>• Ability to execute on the strategic plan is subject to material challenges, uncertainties, and risks</li> <li>• Tax law changes are regularly proposed, and government authority views change over time; US, Bermuda, and GMT tax law changes can also affect the Company's strategic risk related to taxes</li> <li>• Reputational risk can materially impact the current and ongoing strategic interests of the Company.</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic plan is evaluated whether it can be executed without jeopardizing its primary objectives of satisfying the Risk Appetite Statement</li> <li>• Risks related to acquisitions are managed by establishing a framework for business development and directly reflecting the impact of acquisitions on the Risk Appetite Framework and capital management plan</li> <li>• The Tax and Legal teams ensure that the Company adheres to tax laws and regularly conduct tax planning to minimize strategic risk resulting from current and expected taxation changes</li> <li>• Reputational risk managed through the risk framework by all three lines of defense ensuring appropriate controls and escalations are in place.</li> </ul>

As part of the Company's semiannual operational risk assessments, certain areas have been highlighted to exhibit heightened residual risk. In line with the 2024 strategic initiatives, we will focus on enhancing governance and management in the following areas:

- Model Risk
- Financial Operations
- Human Resources

# TALCOTT LIFE RE, LTD

## FINANCIAL CONDITION REPORT DECEMBER 31, 2023

### 3. Risk Profile

In addition to the above, in the ever-changing regulatory environment, the company faces increased challenges. In 2024, strategic measures will tackle emerging or recently emerged regulations, resulting in heightened residual risk. Key focus areas include:

- US GAAP Long Duration Targeted Improvements
- Bermuda Consultation Paper for the Scenario Based Approach
- Bermuda Corporate Income Tax and Global Minimum Tax

Future rulings, guidance, or interpretations may negatively impact TLR; necessitating considerable operational effort from TLR to develop processes addressing current complexity and potential future changes.

#### **Investment in Assets in accordance with the Prudent Person Principles of the Insurance Code of Conduct**

TLR manages its market risks by holding a mix of assets diversified across issuers, geographic regions, asset types and fixed income sectors among other risk factors. The investment portfolios are managed by third-party asset managers and Sixth Street who, to a large extent, make individual credit/investment decisions subject to a comprehensive IMA that have been established with each asset manager. Investments which fall outside the guidelines of the IMA are subject to review by the Investment Management team before inclusion in the portfolios. The Company only invests in assets where the risks can be properly identified, measured, managed, monitored, controlled, and reported on. The IMA's include the essential elements of the Investment Management Policy, Investment Guidelines, and Portfolio specific Investment Strategy Statements. The Investment Team oversee adherence to these guidelines and on a monthly basis, the ERM team performs an independent check and monitors the portfolios metrics such as aggregate quality, sector allocation, and durations against thresholds established in the IMA.

Furthermore, the Company's market risks and investment decisions are governed by the Risk Appetite and Financial Risk Management policies. Market risks are managed subject to the Company goals, risk appetite objectives, tolerances, and exposure limits stated in the policies. As stated in the Company's Financial Risk Management policy, counterparty risk is actively managed through single issuer limits by ratings.

#### **Stress Testing and Sensitivity Analysis**

TLR has established risk tolerances on key metrics such as BSCR ratio based on a confidence level to ensure that the enterprise will have enough surplus to meet all stakeholder obligations over time and even after a severe market stress. As part of the annual risk appetite framework review, the Company determines the set of stresses (standalone and combined) to run based on the Company's risk profile to test the risk appetite limits. For combined stresses, individual risk factors and correlations are calibrated based on history. At least quarterly, TLR conducts deterministic scenario testing to quantify the impact across financial risk exposures and in aggregate to identify potential vulnerabilities in the risk profile of the enterprise. The results show that TLR's main risk exposure as of this filing are to interest rates and credit markets as TLR continues to rebalance the investment portfolio towards the enterprise strategic asset allocation for its liabilities.

Additionally, capital adequacy is evaluated in business as usual and adverse economic scenarios across a series of potential economic, business and market conditions. A set of multi-year deterministic scenarios focusing on market and investment-related impacts are defined by executive management and reviewed quarterly. The projections include forecasts of surplus and required capital over a multi-year period and include items such as: operating income, investment and credit-related impacts, and other surplus changes. Planned capital management initiatives and proposed regulatory changes are integrated across capital, surplus and liquidity analyses.

#### **Other Material Information**

As of December 31, 2023, there is no other material information regarding the Company's risk profile required to be disclosed for purposes of this FCR.

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

#### **4. Solvency Valuation**

The Company's solvency basis is the Bermuda Economic Balance Sheet ("EBS"), where all assets and liability values are calculated in accordance to the Bermuda EBS rules and regulations.

##### **a. Valuation Bases, Assumptions and Methods used to derive the value of each Asset Class**

Assets are held at fair value, as outlined by the BMA's "Guidance Note for Statutory Reporting Regime". Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market in an orderly transaction between market participants. Our fair value framework includes a hierarchy that gives the highest priority to the use of quoted prices in active markets, followed by the use of market observable inputs, followed by the use of unobservable inputs. The fair value hierarchy levels are as follows:

Level 1 - Fair values based primarily on unadjusted quoted prices for identical assets, in active markets that the Company has the ability to access at the measurement date.

Level 2 - Fair values primarily based on observable inputs, other than quoted prices included in Level 1, or based on prices for similar assets.

Level 3 - Fair values derived when one or more of the significant inputs are unobservable (including assumptions about risk). With little or no observable market, the determination of fair values uses considerable judgment and represents the Company's best estimate of an amount that could be realized in a market exchange for the asset. Also included are securities that are traded within illiquid markets and/or priced by independent brokers.

The following valuation methods and assumptions were used to estimate fair value:

##### **Cash and Cash equivalents**

Cash and cash equivalents are carried at cost, which approximates fair value, and includes cash on hand, demand deposits with banks or other financial institutions and money market funds held in the ordinary course of business. The Company considers all short-term highly liquid investments with original maturities of less than three months to be cash and cash equivalents.

##### **Fixed Maturities**

The Company's investments in fixed maturities are bonds. Most of these investments are classified as available for-sale ("AFS") and are carried at fair value, net of an allowance for credit losses ("ACL").

##### **Funds Withheld at Interest**

Funds withheld at interest represent a receivable for investments that are contractually withheld by a ceding company under a funds withheld or modified coinsurance arrangement in which we are the assuming reinsurer. Typically, assets legally owned by the ceding company with a U.S. statutory book value equal to U.S. statutory reserves are withheld and any excess or shortfall is settled on a periodic basis. All of the economics of the assets inure to the benefit of the reinsurer.

Funds withheld are carried at the fair value of the underlying investments, net of any payables and receivables of the reinsurance arrangement. The funds withheld is measured as the total of the host contract, which we have assessed as the book value of assets, and the embedded derivative, which we have assessed as the net unrealized gains or losses on the underlying assets as the ceding insurer is obligated to pay the total return on the underlying investments.

##### **Advances to Affiliates**

Advances to affiliates primarily consist of short term loans to affiliates with remaining maturity of less than twelve months, and are carried at fair value, where amortized cost approximates fair value.

##### **b. Valuation Bases, Assumptions and Methods used to derive the value of Technical Provisions and the amount of the Best Estimate**

The Company's technical provisions were derived using the BMA's Scenario Based Approach. The best estimate cash flows are projected under each alternative stress scenario to determine the revised amount of asset required to cover the liability cash flows. The reserve is set equal to the highest asset requirement across all scenarios. Total best estimate liabilities are \$8,929 million for the period ended December 31, 2023. The Company holds a risk margin to reflect the

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**4. Solvency Valuation**

uncertainty associated with probability-weighted cash flows which is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the BMA for each reporting period. The total risk margin held is \$34 million for the period ended December 31, 2023. The technical provisions for non-participating long duration contracts are established using accepted actuarial valuation methods which require us to make certain assumptions regarding expenses, mortality, and persistency at the date of issue or acquisition. For the fixed indexed annuity business with guaranteed life withdrawal benefits and guaranteed minimum withdrawal benefits, the methods we use to estimate the liabilities have assumptions about policyholder behavior, which includes lapses, withdrawals and utilization of the benefits, mortality and market conditions affecting the account balance growth. Projected policyholder lapse and withdrawal behavior assumptions are set at the product level by grouping individual policies sharing similar features and guarantees and are reviewed periodically against experience. Base lapse rates consider the level of surrender charges and are dynamically adjusted based on the level of current interest rates relative to the guaranteed rates and the amount by which any guarantees are in a net positive position. Withdrawal benefit utilization assumptions consider the number and timing of policyholders electing the benefits. Mortality assumptions are set at the product level and generally based on standard industry tables, adjusted for historical experience and a provision for mortality improvement. We track and update these assumptions as experience emerges.

**c. Description of Recoverables from Reinsurance Contracts**

The Company had no reinsurance recoverables at year-end 2023.

**d. Valuation Bases, Assumptions and Methods used to derive the value of Other Liabilities**

Liabilities are held at fair value, as outlined by the BMA's "Guidance Note for Statutory Reporting Regime".

**e. Other Material Information**

As of December 31, 2023, there is no other material information regarding solvency valuation required to be disclosed for purposes of this FCR.

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**5. Capital Management**

**a. Eligible Capital:**

**i. Capital Management Policy and Process for Capital Needs, how Capital is Managed and Material Changes During the Period**

The Company has a Capital Management process to ensure an appropriate level and form of capital. The Company's capital position is benchmarked against its projected risk exposures to ensure that it is adequate to support planned business operations as well as certain stressed loss events. The form of the capital is designed to provide a balance between security, flexibility and liquidity. In addition, the Company ensures that it meets the appropriate levels/standards as defined under the Bermuda Insurance Act of 1978 (as amended) ("the Act") using the Economic Balance Sheet ("EBS") framework to derive the Company's statutory economic capital and surplus, its Enhanced Capital Requirement ("ECR") and its target capital levels as defined therein. There are appropriate levels of oversight from the Board, Risk and Compliance, Finance and Treasury to ensure appropriate capital levels are managed and maintained.

**ii. Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules**

Under the Bermuda Insurance Act, a Class E insurer is required to maintain statutory capital and surplus at least equal to the minimum margin of solvency ("MMS"), which is equal to the greater of \$8 million or the sum of 2% of the first \$500 million of statutory assets plus 1.5% of statutory assets in excess of \$500 million, or 25% of the ECR. The ECR is a risk-based capital calculation used to measure the risk associated with assets and liabilities and premiums of the insurer.

To enable the BMA to better assess the quality of the insurer's capital resources, a Class E insurer is required to disclose the makeup of its capital in accordance with a 3-tiered capital system. Highest quality capital is classified as Tier 1 Capital, lesser quality capital is classified as either Tier 2 or Tier 3 Capital. The capital supporting the Company's ECR must be at least 50% Tier 1 capital. Additionally, no more than 50% of the Company's ECR can be made up for Tier 2 capital and no more than 17.65% of the aggregate amount of the Company's Tier 1 and Tier 2 capital can be classified as Tier 3 provided that the Tier 2 and Tier 3 capital do not exceed the amount of Tier 1 capital.

While not specifically referred to in the Bermuda Insurance Act, Target Capital Level ("TCL") is also an important threshold for statutory capital and surplus. TCL is equal to 120% of ECR as calculated pursuant to the BSCR formula. TCL serves as an early warning tool for the BMA. If TLR fails to maintain statutory economic capital and surplus at least equal to the TCL, such failure will likely result in increased regulatory oversight by the BMA.

**iii. Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement (ECR) and the Minimum Margin of Solvency (MMS) Requirements of the Insurance Act**

As of December 31, 2023 all of the Company's eligible capital used to meet the MMS and ECR was Tier 1 Capital.

**iv. Confirmation of Eligible Capital that is subject to Transitional Arrangements as required under the Eligible Capital Rules**

N/A

**v. Identification of any Factors Affecting Encumbrances Affecting the Availability and Transferability of Capital to Meet the ECR**

N/A

**vi. Identification of Ancillary Capital Instruments that have been Approved by the Authority**

N/A

**vii. Identification of Differences in Shareholders' Equity as Stated in the Financial Statements Versus the Available Statutory Capital and Surplus**

For the year ended December 31, 2023, the Company has received approval from the BMA to record certain investments at amortized cost instead of fair value. The following represents the effect of the permitted practice to the statutory financial statements:

<i>(in millions)</i>	<b>For the Year Ended December 31, 2023</b>	
Change to capital and surplus due to permitted practice	\$	1,403

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**5. Capital Management**

**b. Regulatory Capital Requirements:**

**i. Identification of the amount of the ECR and MMS at the end of the reporting period**

<i>(In millions)</i>	For the Year Ended December 31, 2023		
	GAAP	SFS	EBS
Actual capital and surplus	4	1,177	596
Required capital and surplus [1]	N/A	170	277
BSCR ratio	N/A	N/A	215%

[1] Represents the MMS for SFS and the ECR for EBS.

**ii. Identification of Any Non-Compliance with the MMS and the ECR**

The Company was in compliance with the MMS and ECR requirements at the end of the reporting period.

**iii. A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and their Effectiveness**

N/A

**iv. Where the Non-Compliance is Not Resolved, A Description of The Amount of The Non-Compliance**

N/A

**c. Approved Internal Capital Model used to derive the ECR**

N/A

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

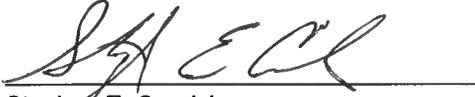
**6. Subsequent Events**

On January 24, 2024, the Company distributed \$100 million to its parent company TRH.

**TALCOTT LIFE RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2023**

**7. Declarations**

We certify that, to the best of our knowledge and belief, this financial condition report fairly represents the financial condition of Talcott Life Re, Ltd. in all material respects for the period ended December 31, 2023.



Stephen E. Cernich  
Chief Executive Officer and Director



Sean Voien  
Chief Risk Officer