

# **TR Re, Ltd.**

Financial Condition Report

**For the period from incorporation to December 31, 2021**

**TR RE, LTD**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2021**

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**1. Business and Performance**

a.	Name of the Insurer	TR Re, Ltd.
b.	Insurance Supervisor	Bermuda Monetary Authority ("BMA")
	Contact Information	Bermuda Monetary Authority BMA House 43 Victoria Street, Hamilton, HM12 <a href="tel:4412955278">Tel:(441) 295 5278</a> Email: <a href="mailto:riskanalytics@bma.bm">riskanalytics@bma.bm</a>
c.	Approved Auditor	Deloitte Ltd., Bermuda
	Contact Information	Stephen Kuzyk Email: <a href="mailto:stephen.kuzyk@deloitte.com">stephen.kuzyk@deloitte.com</a>
d.	Ownership Details	100% owned by Talcott Resolution Life, Inc.
e.	Group Structure	See Exhibit 1 for Group Structure as of December 31, 2021.

TR Re, Ltd. ("TR Re"), a Bermuda exempted company, together with its subsidiaries (collectively, the "Company," "we" or "our") is a leading provider of comprehensive risk solutions for the insurance industry. TR Re was incorporated on June 28, 2021 and registered as a Bermuda Class E insurer effective November 24, 2021. TR Re is a wholly-owned subsidiary of Talcott Resolution Life, Inc. ("TLI"), with an ultimate parent of Talcott Financial Group Investments, LLC. ("TFGI").

On June 30, 2021, TLI's indirect owner, Hopmeadow Holdings GP LLC, completed the sale of the Company (the "Sixth Street Acquisition") through the merger of an affiliate of Sixth Street, a global investment firm, with and into Talcott Holdings, LP ("THLP") pursuant to an Agreement and Plan of Merger (the "Agreement"). Through the Agreement, Sixth Street obtained 100% control of TLI and its life and annuity operating subsidiaries for a total purchase price of approximately \$2.2 billion, comprised of a \$500 million pre-closing dividend and cash of \$1.7 billion.

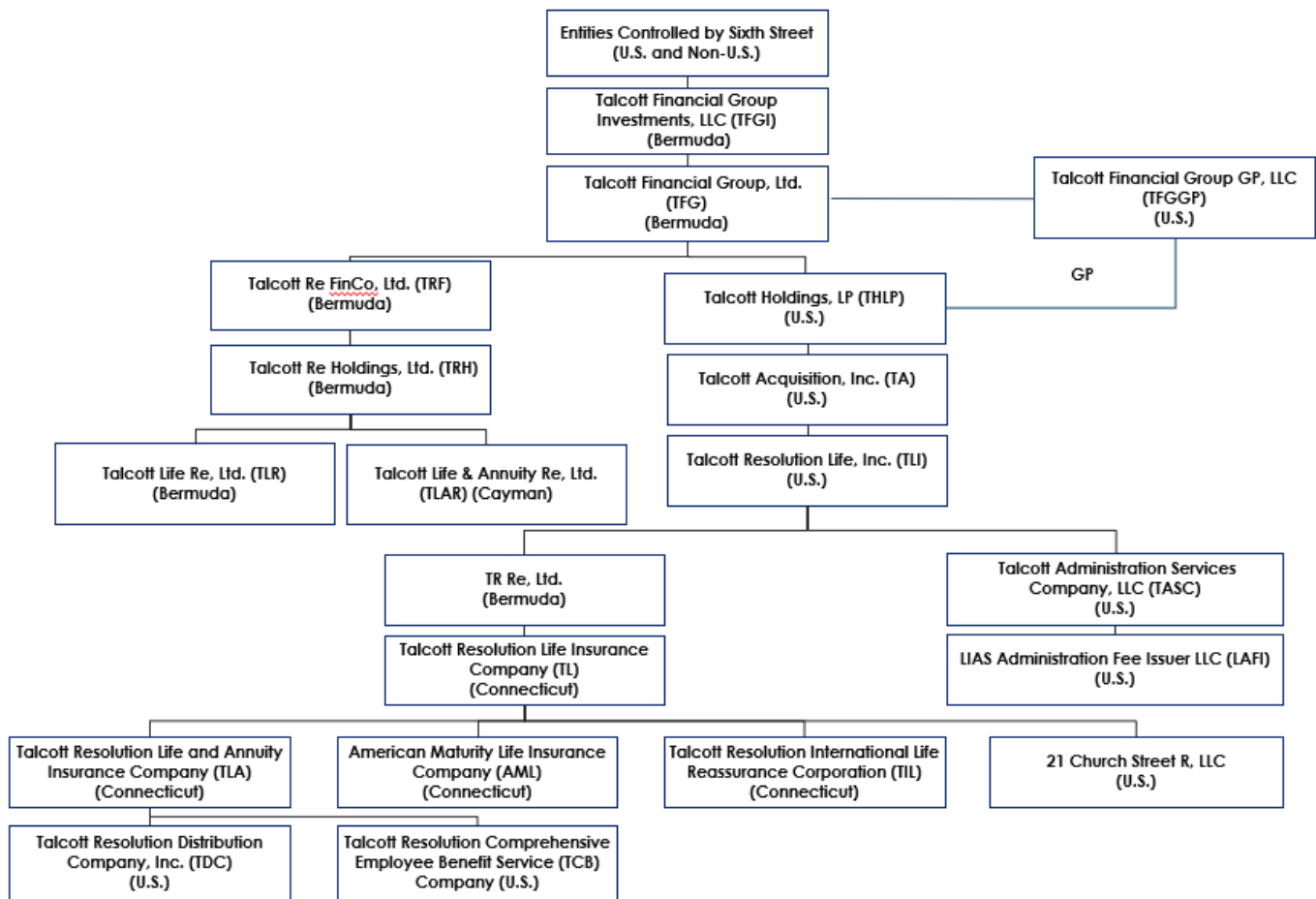
On December 30, 2021, pursuant to a reorganization approved by the Connecticut Department of Insurance ("CTDOI") and the Bermuda Monetary Authority ("BMA"), the Company was contributed to TLI from an affiliated company. On the same date, TLI contributed Talcott Resolution Life Insurance Company and its subsidiaries ("TL") to the Company. As a result of the reorganization the Company became a direct parent of TL.

On December 30, 2021, TR Re's subsidiaries Talcott Resolution Life Insurance Company ("TL") and Talcott Resolution Life and Annuity Insurance Company ("TLA"), collectively, "U.S. Talcott", entered into affiliate reinsurance agreements with TR Re. Pursuant to such reinsurance agreements, U.S. Talcott generally ceded 50% of reserves related to variable annuity and payout annuity blocks, with 100% of certain variable annuity guarantees and certain structured settlement contracts ceded at a lesser quota share percentage. All but U.S. Talcott's terminal funding block was ceded on a modified coinsurance basis, with the pension risk transfer block ceded on a coinsurance with funds withheld basis. U.S. Talcott continue to service and administer the policies as insurer of the reinsured block of business and remains responsible for fulfilling its obligations to policyholders. This affiliate reinsurance transaction was accounted for in accordance with reinsurance accounting. On an unconsolidated basis, DAC was recorded for approximately \$805 million and is recognized in income over the expected life of the underlying policies. U.S. Talcott paid the Company \$100 in ceding commission and an additional \$84 to settle tax balances associated with the transaction as part of the arrangement. As a result of the affiliate reinsurance agreement, the financial impacts eliminate upon consolidation.

The dollar amounts presented in this document are on a consolidated basis for the Company as a whole.

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## 1. Business and Performance



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

On December 30, 2021, TL entered into a reinsurance agreement with Allianz Life Insurance Company of North America ("Allianz"). Pursuant to such agreement, the Company assumed 100% of a block of fixed indexed annuities ("FIA") and 5% of another block of FIAs on a coinsurance basis. Certain of the FIAs included living withdrawal benefits. The Company acquired general account assets to support the assumed reserves and paid \$693 million to Allianz upon closing, primarily relating to a ceding commission of \$866 million, offset by cash settlements. Under the reinsurance agreement, the Company will participate in an aggregated hedging pool administered by Allianz, whereby the Company will pay Allianz a fee in order to participate in the pool and will receive index credit payouts based on the level of participation in the pool. An unearned revenue reserve ("URR") was recorded in other liabilities upon the effective date for approximately \$25 million and will be recognized in income over the expected life of the underlying policies. Allianz will continue to service and administer the policies as insurer of the business.

On September 17, 2021, TL executed a flow reinsurance transaction with Lincoln National Corporation's insurance subsidiary, The Lincoln National Life Insurance Company ("Lincoln"). Under this reinsurance transaction, the Company coinsured a living benefit rider on variable annuity contracts issued by Lincoln between April 1, 2021 and June 30, 2022 up to a maximum of \$1.5 billion of reinsured deposits. Lincoln continues to service and administer the policies as insurer of the business.

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

Net income before tax of \$408 million primarily comprised of \$908 million of revenues from fee income and net investment income, offset by \$493 million of benefits and insurance operating costs and other expenses. Refer to tables below for the breakdown of net income and investment income by asset class:

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**1. Business and Performance**

<i>(in millions)</i>	For the Period of July 1, 2021 to December 31, 2021
<b>Revenues</b>	
Fee income and other	410
Earned premiums	31
Net investment income	498
Net realized capital losses	(20)
<b>Total revenues</b>	919
<b>Benefits, losses and expenses</b>	
Benefits, losses and loss adjustment expenses	285
Amortization of VOBA	13
Insurance operating costs and other expenses	208
Other intangible asset amortization	3
Dividends to policyholders	2
<b>Total benefits, losses and expenses</b>	511
<b>Income before income taxes</b>	408
Income tax expense	67
<b>Net Income</b>	341

<i>(before tax, in millions)</i>	For the Period of July 1, 2021 to December 31, 2021
Fixed maturities	174
Equity securities	10
Mortgage loans	32
Policy loans	36
Limited partnerships and other alternative investments	259
Other	1
Investment expense	(14)
<b>Total net investment income</b>	498

**h. Other Material Information**

For the year ended December 31, 2021, there is no other material information regarding business and performance required to be disclosed for purposes of this FCR.

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## **2. Governance Structure**

### **a. Board and Senior Executive**

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

TR Re'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 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 established an Audit Committee, a Risk Committee and an Underwriting Committee. 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**

TR Re's personnel are employed by Talcott Re Holdings, Ltd. ("TRH") and the Compensation Committee of TRH oversees matters related to such employment. The Company's remuneration policy is intended to attract, retain and motivate high-performing employees. The annual incentive compensation and the long-term incentive program are driven by the group's earnings and value, as well as the accomplishment of qualitative goals that cascade from the enterprise level down to individual goals. The value calculation takes actual experience into account, which encourages a risk-based focus on the origination of new deals and maintenance of closed deals.

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

TRH provides all employees, including executive and senior 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**

Pursuant to the reorganization noted in section 1, on December 30, 2021 the Company received \$1,883 from its parent, Talcott Resolution Life, Inc., to affect the transfer of ownership of Talcott Resolution Life Insurance Company and subsidiaries.

### **b. Fitness and Propriety Requirements**

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

The process for assessing the skills and characteristics for new Board candidates, and for the Board as a whole includes consideration of the following criteria:

- Personal qualities and characteristics, including business judgement, integrity, high standards of ethical conduct and distinction in their chosen fields of endeavors.
- Diversity of viewpoints, skills, experience, background, orientations and other demographics in the context of the needs of the Board; and
- Such other attributes and external factors deemed appropriate

Chief and executive level officer appointments reporting to the Chief Executive Officer are reviewed and approved by the Board and the Compensation Committee of the TRH Board of Directors.

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

The Company's Board of Directors is comprised of eight experienced insurance professionals:

#### **Board of Directors**

*Anthony Michael Muscolino (Non-Executive Director and Chairman)*

Mr. Muscolino is a Co-Founding Partner and member of Executive Committee of Sixth Street, and co-runs Sixth Street's Insurance business. He serves as a director on the boards of various Sixth Street-managed portfolio companies. Prior to

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co-founding Sixth Street in 2009, Mr. Muscolino was a Principal with FG Companies, a consumer and commercial finance advisory firm providing strategic consulting and investment banking services to banks, finance companies and their investors. From 1999 to 2007, Mr. Muscolino worked with Goldman Sachs in the Americas Special Situations Group (“AmSSG”) and prior to AmSSG, in the Financial Institutions Group of the Investment Banking Division. Prior to Goldman Sachs, Mr. Muscolino worked in the Financial Services practice of Andersen Consulting providing technology and business process consulting services to financial services clients. Mr. Muscolino earned an M.B.A. with honors from the University of Chicago Booth School of Business and a B.S. with honors in Mechanical Engineering from the University of Illinois at Urbana-Champaign.

*Stephen Eric Cernich (Director, Chief Executive Officer and Interim Chief Actuary)*

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).

*Joshua William Easterly (Non-Executive Director)*

Mr. Easterly is the Co-President, Co-founding Partner and member of Executive Committee of Sixth Street, and co-runs Sixth Street's Insurance business. He is Chairman and CEO of Sixth Street Specialty Lending, Inc. (NYSE: TSLX) based in New York. Prior to co-founding Sixth Street, Mr. Easterly was a Managing Director with Goldman Sachs, where he worked in the Americas Special Situations Group (“AmSSG”) and most recently held the position of AmSSG's Chief Investment Officer. He also held the positions of Head of Distressed Principal Investing and Co-Head of Goldman Sachs Specialty Lending Group. Other leadership roles during Mr. Easterly's tenure at Goldman Sachs included Co-Head of AmSSG Asset Investing and Co-Head of AmSSG Private Equity. In such positions, Mr. Easterly served on various boards of directors of companies in which AmSSG invested. Prior to joining Goldman Sachs in March 2006, Mr. Easterly was Senior Vice President, Northeast Regional Originations Manager with Wells Fargo Foothill, the \$8 billion commercial finance company of Wells Fargo & Co. In this role, he was responsible for all origination and underwriting efforts in New York and Boston and was a member of the Credit Committee and Senior Management team. Mr. Easterly graduated from California State University, Fresno with a B.S. in Business Administration, magna cum laude.

*Peter Francis Sannizzaro (Non-Executive Director)*

Mr. Sannizzaro was President and Chief Executive Officer of the Talcott Resolution Life Insurance Company from November 2018 to July 15, 2022. He was highly engaged in the day-to-day management of the business and the establishment of its overall strategy. He has 30 years of experience in the financial services industry, including serving as President and Chief Operating Officer of the Company from June 2018 to November 2018. Prior to 2018, he served as Senior Vice President and Chief Financial Officer for the Company where he had responsibility for Finance, Actuarial and Risk, as well as Chief Financial Officer of Hartford Investment Management Company. He is a Chartered Financial Analyst and a Certified Public Accountant. He serves as a director of Foodshare, Inc.

*Imran Siddiqui (Non-Executive Director)*

Mr. Siddiqui retired from Apollo Global Management in early 2017, where he was a Senior Partner overseeing Financial Institutions investing. In that position, he sponsored the initial investment and formation of Athene Holdings Ltd and played a prominent role in the build-out of Athene into a \$65 billion asset company. Mr. Siddiqui served as a Director and Vice Chairman for Athene, chaired the Compensation Committee and worked hand-in-hand with Athene management in evaluating, pricing and negotiating Athene's five acquisitions between 2009-2016. In addition to building Athene, Mr. Siddiqui also purchased and grew a mid-market commercial lender (MidCap Financial), investing ~\$2.75 billion of capital into the company; started a residential mortgage originator (AmeriHome) and invested ~\$500 million of capital into it; and sponsored and sat on the investment committee of Apollo's Life Settlements funds, which had over \$2.0 billion of AUM by the time Mr. Siddiqui departed Apollo. Mr. Siddiqui was one of the ~10 members of Apollo's Management Committee, which oversaw the strategy and operations of the firm. Prior to joining Apollo in 2008, Mr. Siddiqui worked at Oak Hill Capital, Goldman Sachs and McKinsey & Co. He has a JD from Harvard and a BA in Political Science and an MA in International Relations from the University of Chicago.

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### *Rohan Singhal (Non-Executive Director)*

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, 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.

### *Ronald K. Tanemura (Non-Executive Director)*

Mr. Tanemura is a retired Partner and former Advisor Director for Goldman, Sachs & Co. from 2000 to 2006. He was also a Managing Director at Deutsche Bank from 1996 to 2000 and at Salomon Brothers from 1985 to 1996. During his 20 years in banking, he managed a variety of fixed income sales and trading businesses in London, New York and Tokyo. In March 2011, Mr. Tanemura was elected a director of Sixth Street Specialty Lending, Inc. and currently serves as a director of post-reorganization Lehman Brothers Holdings Inc. in New York. Also, from 2012 to 2019, he served as a non-executive director of ICE Clear Credit in Chicago and, from 2009 to 2019, he served as a non-executive director of ICE Clear Europe in London, both wholly owned subsidiaries of Intercontinental Exchange, Inc. Mr. Tanemura's extensive experience in the financial markets, his deep understanding of risk and his prior board experience including service at highly regulated financial companies, makes Mr. Tanemura an excellent corporate governance and strategic addition to the Board.

## **Executive Management**

The Company's experienced management team includes:

### *Stephen Eric Cernich – Chief Executive Officer and Interim Chief Actuary*

Mr. Cernich joined the Company as CEO in 2021. See biography above.

### *Huan Tseng – Chief Underwriter and Head of Reinsurance*

Mr. Tseng joined the Company as Chief Underwriter and Head of Reinsurance in 2021. Mr. Tseng is responsible for the underwriting and corporate development functions of Talcott's offshore entities. He has over 20 years of reinsurance experience globally, specializing in variable and fixed annuities, M&A, and financial solutions. Mr. Tseng has a strong track record of executing successful transactions with Bermuda-based reinsurers during his 3 years at Athene and 10 years at ACE (now Chubb) where he held senior roles and led the pricing functions. He joins Talcott from RGA Reinsurance Company where he was involved in corporate development, structuring and business development. Mr. Tseng received an Honours Bachelor of Science in actuarial science with distinction from Western University. He is a Fellow of the Society of Actuaries (FSA), a Member of the American Academy of Actuaries (MAAA), and an Associate of the Canadian Institute of Actuaries (ACIA).

### *Adam Laing - Chief Financial Officer and Principal Representative*



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Mr. Laing joined the Company as CFO and Principal Representative in 2021. Mr. Laing has been very active in the insurance sector for approximately 20 years, including both as auditor at a Big-4 accounting firm and as a CFO and COO for a multi-billion dollar Bermuda life & annuity company. His responsibilities included oversight for local actuarial, underwriting, and Finance teams. He has experience building a team and training a large group of professionals in Bermuda, and in his role was the Principal Representative to the BMA. Prior to this role, Mr. Laing worked at Deloitte where he provided audit and consulting services to Fortune 500 and public companies in the financial services sector including in life and annuities, property and casualty, and mortgage origination and servicing. Mr. Laing experienced all aspects of accounting and operations including complex investments, (re)insurance operations, reserving, income taxes, corporate and reporting, Sarbanes-Oxley, multiple bases of accounting as well as regulatory reporting and solvency in the U.S., Bermuda, and Europe. Mr. Laing is an active Board member of a local Bermuda charity, and he received his Master of Science degree in Accounting as well as his Bachelor of Science degree in Economics and Accounting from Boston College.

### *Christopher Abreu – Chief Risk Officer*

Mr. Abreu joined the Company as CRO in 2021. As Chief Risk Officer, Mr. Abreu is responsible for Enterprise Risk Management, including governance, monitoring, and reporting of financial and operational enterprise risks. Mr. Abreu has more than 30 years of experience within the industry, and prior to joining TR Re, held various senior enterprise risk management, variable annuity hedging, and traditional actuarial roles at The Hartford and Travelers. He is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries.

### *Matthew J. Poznar – Chief Investment Officer*

Mr. Poznar joined the Company as CIO in 2021. Mr. Poznar is responsible for the investment portfolios and strategies that support financial commitments to TR Re's contract holders and contribute to overall enterprise returns. He has over 36 years of experience within the industry, and prior to joining TR Re, was responsible for managing investment portfolios at Hartford Investment Management Company and 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 in 2021. As Chief Auditor, 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 TR Re, he was 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.

### *Lisa M. Proch – Chief Compliance Officer<sup>1</sup>*

Ms. Proch joined the Company as Chief Compliance Officer in 2021. Ms. Proch is responsible for overseeing the compliance function for the Company. She has over 25 years' experience within the industry, including as General Counsel and Chief Compliance Officer of the Company's US insurance company affiliates and prior to her roles with the Company, was the Chief Legal Officer and Chief Compliance Officer for the wealth management businesses at The Hartford and legal counsel for Fidelity Investments.

### *Christopher B. Cramer- Chief Tax Officer*

Mr. Cramer joined the Company as Chief Tax Officer in 2021. Mr. Cramer is responsible for overseeing the tax function for the Company. He has over 17 years' tax and legal experience within the industry, including his current role as Chief Tax Officer and Deputy General Counsel of the Company's US insurance company affiliates. Prior to his role with the Company, he was Head of Tax Law for The Hartford.

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<sup>1</sup> Bobbi Marshall replaced Lisa as Chief Compliance Officer of the Company effective July 4th, 2022. Bobbi 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.

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## **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 Talcott Financial Group Investments, LLC Board Enterprise Risk Committee (“ERC”) is responsible for oversight of risk of the enterprise and its direct and indirect subsidiaries. The ERC is responsible for setting the enterprise risk appetite framework and limits, and dictates the risk appetite guidelines for its direct and indirect subsidiaries including TR Re, Ltd. (“TR Re”). The Enterprise Risk Committee of the Board oversees the investment, financial risk, and operational risks, and has oversight of all risks that do not fall within the oversight responsibility of any other standing committee. TR Re’s Risk Committee of its Board of Directors provides oversight of the risk management activities of TR Re. TR Re adopted the same risk management framework approved and implemented by the Talcott Financial Group Investments, LLC. The ERM function is independent from the business functions within the Company and 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. ERM is led by TR Re’s Chief Risk Officer (“CRO”). ERM has clear responsibility for maintaining and enforcing the ERM program and its policies across all subsidiaries.

The enterprise Risk Management Framework (“RMF”) consists of a set of risk policies and standards. These are reviewed and approved by the Enterprise Risk Committee of the TFGI Board, 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 Enterprise Risk Committee of the TFGI Board 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 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 and entity level boards and risk committees.

#### **Risk Governance Framework**

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

#### **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**

As the Board has ultimate responsibility for risk oversight, it exercises its oversight function through its standing committees, each of which has primary risk oversight responsibility with respect to all matters within the scope of its charter. With assistance from ERM and participation from the key functional areas, TR Re utilizes a committee structure to elevate risk discussions and decision-making. The Management Risk and Capital Committee (MRCC) is a management committee chaired by the CEO that reports to the Board primarily through its Risk Committee. The MRCC oversees the risk profile and risk management practices of the enterprise. The MRCC also oversees the capital structure of the Company. The MRCC is composed of the Company’s CEO, all direct reports to the CEO (the Executive Leadership Team), and others as deemed necessary by the CEO. Three sub risk committees sit below the MRCC and help facilitate discussions and reporting on TR Re’s key risks.

Each committee 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 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, is reviewed, and approved annually by the TR Re Risk Committee. The risk appetite framework includes a risk appetite statement, risk

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## **2. Governance Structure**

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 profile of all material risks to which the Company is exposed. Material risk exposures are identified, continually assessed, and reported to management and the Board on a regular basis; 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 TR Re Risk Committee of the 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 conducts BRSAs to enable the business to effectively identify and communicate their most material risks to senior management and the Audit Committee of the Board. BRSAs are reviewed for changes on a regular basis. If changes are material, results will be provided to the Risk Governance Committee.

### **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 MRCC participates in discussions around enterprise top emerging risks. Led by the Chief Risk Officer, ERM interviews the executive leadership to better understand, and document potential emerging risks TR Re may face. In addition, ERM reviews emerging risk industry led surveys. ERM then compiles the list of top emerging risks which the Enterprise's balance sheet is exposed.

### **Top Emerged Risks**

As part of the annual risk appetite work, the Company will conduct analysis to identify and prioritize its top emerged risks. The MRCC 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.

### **Risk Mitigation**

A variety of 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, TR Re sets forth risk mitigation strategies within its risk policies. Below is a summary of strategies adopted by TR Re. Further discussions on TR Re's risk mitigation strategies are included in the Risk Profile section.

### **Risk Reporting and Communication**

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. Risk reporting occurs at various levels throughout ERM. Centralized aggregate reporting brings together timely critical risk data for the MRCC and the Risk Committee of the TR Re Board 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.

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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 TR Re's risk profile.

Furthermore, ERM performs data analysis to capture daily, weekly and/or monthly trending at a more granular level. Lower-level detailed risk reports are provided to TR Re's leadership team and to relevant functional areas as appropriate. As an example, ERM monitors and reports TR Re's exposure to financial risks daily via the Mark-to-Market report. Breaches are escalated by the CRO to the MRCC and cured or waived by the responsible committee as laid out in the risk management policies.

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

Functional heads are responsible for day-to-day risk management activities, senior 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 and the group's embedded value processes. The Company's senior management and the Board of Directors 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 Risk Committee of the Board. The CRO reports to TR Re's Risk Committee of the Board on its ability to effectively manage liquidity risk, derivative activity performed for the economic benefit of the Company including activity related to modified co-insurance contracts and investment compliance reporting. The Company's CRO is an active member of the internal management level risk committees, and is directly involved with the Company's Treasury function regarding capital and liquidity management. This includes the establishment of various inter-company lending facilities, monitoring of liquid assets both at the enterprise level and Company level addressing the quantification and allocation of capital to current and new operations.

TR Re's solvency self-assessment process is performed in conjunction with the other Talcott Financial 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 TR Re's risk governance documentation, risk appetite and limits, identification, management, monitoring and reporting of key risks as well as an overview of TR Re's risk capital and prospective solvency. Every year, the CISSA report is revised to include up to date information on TR Re's risk management framework.

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

TR Re's risk management framework considers the various regulatory lenses and TR Re's capital management philosophy is to ensure adequate capitalization and liquidity of its business operations and sufficient financial flexibility across the enterprise during business as usual and 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 BSCR and economic valuations. The Company uses the BSCR to determine the required Commercial Insurer's Solvency Self-Assessment (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 TR Re's Risk Committee of its Board of Directors includes oversight of all risk exposures, risk management activities, and capital structure for TR Re. As a result, the TR Re Risk Committee is responsible for reviewing and approving the CISSA report prior to the submission.

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## **2. Governance Structure**

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 TR Re review the CISSA report with the executive leadership team, which then recommends the CISSA report for approval to the TR Re Risk Committee.

### **d. Internal Controls**

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

The Company has adopted the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework as the criteria for evaluating the effectiveness of Internal Controls. 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. For example, this includes our Code of Ethics, Board Governance, Audit Committee Charter, 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, Internal Audit and Risk Management).
4. **Information and Communication** - These are necessary to carry out internal control responsibilities
5. **Monitoring Activities** - Ongoing evaluations to ascertain the adequacy of our Internal Controls and communication of deficiencies to senior management and the Board.

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

The compliance function oversees compliance activity for the Company and promotes and sustains a corporate culture of compliance and integrity that ties into the larger Talcott Group. Compliance develops policies, procedures and processes, maintains compliance monitoring and testing (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 or internal documentation, policies, procedures and controls in addition to maintaining 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. The charter is approved by the Company's Audit Committee each year. Internal Audit annually sets up an internal audit plan of work, based on an assessment of both the inherent risk and the adequacy of controls. Its performance is formally monitored and reported to the Audit Committee.

### **f. Actuarial Function**

The Company's CEO and interim Chief Actuary 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 filled 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, 2021, the Company had no direct employees as it is managed by TRH, supported by personnel from TLI, the Company's direct parent, pursuant to an Intercompany Services and Cost Allocation Agreement ("the

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**2. Governance Structure**

reimbursement agreement") between the Company, TLI and other Company affiliates. For functions outsourced either externally to third parties, such as third party investment managers, or internally to affiliated entities, the Company Board, CEO and CFO maintain 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, 2021, there is no other material information regarding governance structure required to be disclosed for purposes of this FCR.

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### **3. Risk Profile**

TR Re has exposure to a variety of financial risks, insurance risks, and operational risks due to the nature and size of its business. These 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 default, and risk of a change in value due to changes in credit spread. The majority of TR Re's credit risk is concentrated in its investment holdings.

##### **Management**

Through the shared services provider agreement, the Company manages the credit risk for investments by holding a mix of assets diversified across issuers, geographic regions, asset types and sectors among other risk factors. A comprehensive Investment Management Agreement (IMA) has been established with each asset manager and 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 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.

##### **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 basis and on an aggregate portfolio exposure basis. TR Re utilizes both a bottom up and top-down approach to managing and controlling credit risk exposure. The top-down metrics include limits for BSCR & Economic Surplus after a stress, and aggregate portfolio risk through an average rating constraint. TR Re'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 to measure the spread, migration, and default risk are leveraged on a regular basis. The Company monitors and review its portfolio's credit quality and sector allocation at least monthly to ensure that the asset manager stays within the investment portfolio guidelines. Aggregate counterparty credit quality and exposure will be monitored daily. All limit breaches are escalated by CRO to the responsible committees.

#### **2. Interest Rate Risk**

Interest rate risk is defined as the exposure to adverse changes to the Company's surplus levels 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. TR Re has exposure to interest rate risk arising from its fixed maturity investments and liabilities as well as its exposure to variable annuities. The fair value of the invested assets and both fixed and variable annuity liabilities fluctuate depending on the interest rate environment and other general economic conditions.

##### **Management**

Several metrics are used by TR Re to manage Interest Rate Risk inherent in its invested assets and interest rate sensitive liabilities. Matching the dollar duration and convexity characteristics of the assets with liabilities can mitigate interest rate risk.

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

TR Re utilizes stress testing under three distinct metrics to determine limits for controlling interest rate risk exposure. These metrics are Economic Surplus, BSCR, and DV01.

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### **3. Risk Profile**

#### **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 are aligned with the segmentation structure, as well as enterprise limits. All deviation from guidelines and/or 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, and hedge funds. The Company has exposure to equity risk primarily through its Variable Annuity liabilities, business reinsured from other carriers, and General Account assets.

#### **Management**

Equity investment exposures are most commonly reduced through the sale of the exposure with respect to general account investments or through hedges using index futures, options, and swaps. Additionally, the Company has a reinsurance treaty in place on blocks of fixed index annuities. In these contracts, interest is credited based on the performance of an index, generally equity-related. The Company has a hedging agreement with the cedant that largely mitigates the Company's exposure to the effect of equity returns on the index interest credited to the policyholder. The Company retains some residual equity risk to the extent that long-term equity performance causes the value of policyholder guarantees to exceed account value.

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

TR Re utilizes stress testing under three distinct metrics to determine limits for controlling equity risk exposure. These metrics are Economic Surplus, BSCR, and Equity Delta.

#### **Monitoring and Reporting**

The Company's equity exposures are monitored daily. All deviation from guidelines and/or limit breaches that occur will be escalated to the relevant risk committee.

### **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, changes 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, company-specific liquidity risk and market liquidity risk resulting from differences in the amount and timing of sources and uses of cash. Inadequate capital resources and liquidity could negatively affect the Company's overall financial strength and its ability to generate cash flows from its businesses, borrow funds at competitive rates, or raise new capital to meet operating and growth needs.

#### **Management**

The Treasurer maintains resources and capabilities to meet funding needs of the enterprise consistent with requirements specified in the Liquidity Risk Management Policy. The Treasurer is required to report the status of the contingency funding plan to the Company's Finance and Investment Committee at least annually. The contingency funding plan does not prescribe any particular steps but outlines the alternate sources of Liquidity available to the Treasurer in an event.

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

TR Re's invested assets are evaluated to determine their liquidity characteristics. Sectors that generally lack market transparency or have potential for severe market value loss 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:



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### **3. Risk Profile**

In the 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 the holdings and usage of tiered assets are determined through stress testing to assure 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 affect the underlying annuity products. Policyholder Behavior Risk is the risk of policyholders utilizing benefits within annuity contracts in an adverse manner or magnitude different than the Company would expect. This risk is exacerbated in adverse market environments because the guaranteed benefits of the annuity contracts become more valuable and policyholder behavior could be more volatile and anti-selective.

Longevity risk is contingent risk on both the Variable Annuity and Fixed Indexed Annuity businesses. Longevity risk is also on payouts and structured settlements. The impact of higher longevity only impacts this business to the extent the guaranteed withdrawal benefit amounts exceed the annuity account value during income phase.

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 or faster payment of claims. TR Re 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.

#### **Management**

TR Re has taken both proactive and reactive steps to manage Policyholder Behavior, mortality, and longevity risks within contractual, practical, and economic limitations.

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

The Company carefully underwrites the impact of policyholder behavior. Consideration is also given to features or benefits in the underlying contracts that would offset or magnify existing risks or exposures. TR Re does not have specific limits or metrics associated with the management of insurance related risks but considers the experience monitoring 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 on a monthly basis. Quarterly, the Insurance Risk Committee which includes senior leaders from the Actuarial, Finance and Internal Audit functions meets to determine whether experience is significantly different than best estimate assumptions – if so, there would be a special model update for assumption changes. Annually, the Company completes a comprehensive annuity policyholder behavior 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 senior 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 TR Re's business and functional areas. Operational risk can

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### **3. Risk Profile**

result in financial loss, disruption of the Company's business, regulatory actions or damage to the Company's reputation. As a result of refiling the 2021 BSCR, the Company assigned a higher operational risk charge in recognition of further development necessary within the Company's various business functions and processes as it executes on its growth strategy.'

#### **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 BRSAs, validating existing crisis management protocols, identifying and monitoring emerging Operational Risks, and purchasing insurance coverage.

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

TR Re 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.

#### **Monitoring and Reporting**

Operational Risk owners and managers systematically utilize information on both internal and external events to improve risk measurement, minimize losses 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 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.

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### 3. Risk Profile

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 then 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 Resilience 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>
Third Party (Vendor)	<ul style="list-style-type: none"> <li>Vendor Oversight Policy and corresponding Program that provides an end-to-end control structure for vendor relationships</li> <li>Vendors are assigned risk ratings at the time of engagement based on a risk rating questionnaire completed by designated risk assessors</li> <li>Vendor managers are assigned and monitor and manage the day-to-day performance of a third party or vendor</li> <li>Central repository for all items related to vendor engagements</li> </ul>	<ul style="list-style-type: none"> <li>Regular reporting of vendor activity and assessment status to the relevant committees, with supporting detail on our high risk vendor population</li> <li>Vendors are assessed on the sufficiency of their controls based on their risk rating. These assessments focus on a vendor controls related to information security, business resiliency, disaster recovery, financial controls, compliance and general business controls</li> </ul>

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

TR Re manages its market risks by holding a mix of assets diversified across issuers, geographic regions, fixed income asset types and sectors among other risk factors. The investment portfolios are managed by third-party asset managers who, to a large extent, make decisions subject to their respective comprehensive Investment Management Agreement (IMA) with the Company. 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 (ISS). The Investment Team oversee adherence to these guidelines and on a monthly basis, the ERM team performs an independent

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### **3. Risk Profile**

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**

TR Re has established risk tolerances on key metrics such as economic surplus and 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, TR Re conducts deterministic scenario testing for the purpose of quantifying the impact across financial risk exposures and in aggregate to identify potential vulnerabilities in the risk profile of the enterprise.

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 senior management and reviewed on a quarterly basis. 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.

#### **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 market 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 for the various asset classes:

##### **Investments**

*Fixed maturities*- The Company's investments in fixed maturities include bonds, structured securities, redeemable preferred stock and commercial paper. Most of these investments are classified as AFS and are carried at fair value, net of ACL, in accordance with guidance regarding expected credit losses. The after-tax difference between fair value and cost or amortized cost is reflected in stockholder's equity.

*Equity*- Equity securities are measured at fair value with any changes in valuation reported in net income.

*Policy loans*- Policy loans are carried at outstanding balance.

*Mortgage loans*- Mortgage loans are recorded at fair value net of ACL.

*Short-term investments*- Short-term investments are carried at amortized cost, which approximates fair value.

*Limited partnerships and other alternative investments*- These are reported at their carrying value and are primarily accounted for under the equity method with the Company's share of earnings included in net investment income.

Other investments consist of derivative instruments which are carried at fair value and real estate acquired in satisfaction of debt.

##### **Reinsurance recoverables**

Amounts recoverable from reinsurers are estimated in a manner consistent with assumptions used for the underlying policy benefits. Accordingly, the Company's estimate of reinsurance recoverables is subject to similar risks and uncertainties as the estimate of the gross reserve for future policy benefits.

##### **DTA**

The Company recognizes taxes payable or refundable for the current year and deferred taxes for the tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse. A deferred tax provision is recorded for the tax effects of differences between the Company's current taxable income and its income before tax under Bermuda Statutory Accounting in the Statutory Consolidated Statement of Income. For deferred tax assets, the Company records a valuation allowance that is adequate to reduce the total deferred tax asset to an amount that will more likely than not be realized.

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

##### **Separate account assets**

Separate account assets are primarily invested in mutual funds. Other separate account assets include fixed maturities, limited partnerships, equity securities, short-term investments and derivatives that are valued in the same manner, and using the same pricing sources and inputs, as those investments held by the Company.

##### **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 have been discounted reflecting the projected performance of the Group's assets under the most severe interest rate stress scenario. The risk-free interest rate scenarios were supplied by the BMA. The Company holds a risk margin to reflect the uncertainty inherent in the underlying 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 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 variable annuity and fixed indexed annuity businesses with guaranteed life withdrawal benefit and guaranteed minimum withdrawal benefit riders, the methods we use to estimate the liabilities have assumptions about policyholder behavior, which includes lapses, withdrawals and utilization of the benefit riders, mortality and market conditions affecting the account balance growth. Projected policyholder lapse and withdrawal behavior assumptions are set in one of two ways. For certain blocks of business, this behavior is a function of our predictive analytics model which considers various observable inputs. For the remaining blocks of business, these 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 rider guarantees are in a net positive position. Rider utilization assumptions consider the number and timing of policyholders electing the riders. 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**

Reinsurance recoverables are measured at fair value and include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses and are presented net of allowance for credit losses ("ACL"). The ACL represents an estimate of expected credit losses over the lifetime of the contracts that reflect management's best estimate of reinsurance cessions that may be uncollectible in the future due to reinsurers' inability to pay. Reinsurance recoverables include an estimate of the amount of policyholder benefits that may be ceded under the terms of the reinsurance agreements. Amounts recoverable from reinsurers are estimated in a manner consistent with assumptions used for the underlying policy benefits. Accordingly, the Company's estimate of reinsurance recoverables is subject to similar risks and uncertainties as the estimate of the gross reserve for future policy benefits.

##### **d. The valuation bases, assumptions and methods used to derive the value of other liabilities**

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

##### **e. Any other material information**

As of December 31, 2021, there is no other material information regarding solvency valuation required to be disclosed for purposes of this FCR.

## **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 Insurance Act using the economic balance sheet framework to derive the Company's statutory economic capital and surplus, its enhanced capital requirement 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**

The capital supporting the MSM and ECR must be at least 80% Tier 1 in respect of MSM and 50% Tier 1 for ECR. No more than 25% of the Tier 1 capital can be Tier 2 for the purposes of MSM and no more than 50% of the Tier 1 capital can be Tier 2 for the purposes of calculating ECR. Finally, no more than 17.65% of the Company's capital can be classified as Tier 3 for ECR purposes.

#### **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 (MSM) Requirements of the Insurance Act**

As of December 31, 2021 all of the Company's eligible capital used to meet the MSM and ECR was Tier 1 Capital.

#### **iv. Confirmation of Eligible Capital that is subject to Transitional Arrangements**

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.**

Please see the Regulatory Capital Requirements section below for further details - ECR and MSM requirements at the end of the Reporting Period.

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## 5. Capital Management

### b. Regulatory Capital Requirements:

#### i. Identification of the amount of the ECR and MSM at the end of the reporting period

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.

(In millions)	For the Period Ended December 31, 2021		
	GAAP	SFS	EBS
Actual capital and surplus	\$2,213	\$2,024	\$2,874
Required capital and surplus [1]	N/A	\$223	\$891
BSCR ratio	N/A	N/A	323 %
Net Income (loss)	\$341	\$343	N/A

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

The table above reflects the figures refilled, as subsequent to the original filing certain adjustments were identified to be made, resulting in an adjustment of the Actual Capital and Surplus, Required Capital & Surplus and BSCR ratio.

#### ii. Identification of Any Non-Compliance with the MSM and the ECR

The Company was in compliance with the MSM 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

#### i. Description of the Purpose and Scope of the Business and Risk Areas where the Internal Model is used

The company utilizes the Talcott Resolution model platform (termed "Converted Code Model Platform") to project its liability and hedge asset cash flows for the VA block. These cash flows are fed into the AXIS actuarial software package, and we then perform an integrated ALM projection including General Account assets and related investment strategies.

#### ii. Where a Partial Internal Model is Used, a Description of the Integration with the BSCR Model.

N/A

#### iii. Description of Methods Used in the Internal Model to Calculate the ECR

Output is aggregated and processed using an in-house Excel-based tool to determine CTEs and related items in support of US and Bermuda regulatory filings. For the Bermuda filing, the model used the US RBC C3 Phase 2 approach but with best estimate assumptions and a 95 CTE threshold.

#### iv. Description of Aggregation Methodologies and Diversification Effects

The stochastic run is calculated on a seriatim basis so there is no adjustment for compression/grouping of contracts.

#### v. Description of the Main Differences in the Methods and Assumptions Used for the Risk Areas in the Internal Model Versus the BSCR Model

Best Estimate assumptions used for valuation are consistent with those used for other company risk assessment and strategic processes.

#### vi. Description of the Nature and Suitability of the Data Used in the Internal Model

The source data used for variable annuity inforce construction is the VISTA system, which is the Talcott Resolution variable annuity administration system.

#### vii. Any other material information.



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**6. Subsequent Events**

On July 29, 2022, TL executed a flow reinsurance agreement with Allianz. Under the terms of the transaction, TL assumed certain FIA contracts issued by Allianz after August 2, 2022 on a coinsurance basis. Allianz will continue to service and administer the policies reinsured under the agreement as the direct insurer of the business.

On November 1, 2022, TL entered into a reinsurance agreement with The Guardian Insurance & Annuity Company, Inc. ("Guardian") to reinsure \$7.1 billion in VA reserves, primarily comprised of contracts with living withdrawal benefit and death benefit riders. TL assumed 100% of \$439 million in general account reserves on a coinsurance basis and assumed 100% of \$6.7 billion in separate account reserves on a modified coinsurance basis. As part of this transaction, TL entered into an administration services agreement for the reinsured block and will ultimately administer the reinsured block within two years following the close of the transaction.

On December 31, 2022, TL retroceded 75% of the business that it assumed from Allianz to TR Re on a modified coinsurance basis.

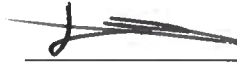
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**7. Declarations**

We certify that, to the best of our knowledge and belief, this financial condition report fairly represents the financial condition of TR Re, Ltd. in all material respects for the period ended December 31, 2021.



\_\_\_\_\_  
Stephen E. Cernich  
Director, Chief Executive Officer  
and Interim Chief Actuary



\_\_\_\_\_  
Adam Laing  
Chief Financial Officer and Principal Representative