Aspida Life Re Ltd.
Financial Condition Report
For the year ending December 31, 2020

Aspida Life Re Ltd, formerly F&G Reinsurance Ltd. was registered as a Class C insurer on July 5, 2011 under the Insurance Act 1978 of Bermuda. The Company registered with the Bermuda Monetary Authority (the "Authority") as a Class E (re)insurer from a Class C on December 18, 2020 under the Insurance Act 1978 of Bermuda. The name change from F&G Reinsurance Ltd to Aspida Life Re Ltd. was effective on December 18, 2020 The company's financial strength ratings as at the date of filing are A- (AM Best). All values in this report are expressed in US dollars '000 units.

1. BUSINESS AND PERFORMANCE

a. <u>Name of Insurer</u>

Aspida Life Re Ltd. ("the Company" or "Aspida Re")

b. <u>Supervisors</u>

<u>Insurance Supervisor</u>
Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

c. <u>Approved Auditor</u>

<u>GAAP and Statutory Reporting</u>
Ernst & Young Ltd.
3 Bermudiana Road,
Hamilton HM08
Bermuda

d. <u>Ownership Details</u>

The Company, a Bermuda tax exempted company, is a wholly owned subsidiary of Aspida Holdings Ltd., an indirect subsidiary of Ares Management Corporation.

e. Group Structure

The Company is a wholly owned subsidiary of Aspida Holdings Ltd. As at December 31, 2020, Aspida Life Re is the only active company within the group.

f. Insurance Business Written

The Company provides reinsurance solutions covering fixed annuities, multi-year guarantee annuities, and pensions.

At December 31, 2020, the Company had $2,246,342 (2019: $1,864,662), of funds withheld receivables and $2,187,536 (2019: $1,669,313), of future policy benefits.

	December 31, 2020 Carried at fair value
Funds withheld receivables - third party cedant	
Corporate bonds	1,013,384
Government bonds	68,147
Municipal bonds	221,679
Asset Backed Securities	295,729
Mortgage Backed Securities	233,418
Equities	54,243
Money market funds	28,944
Preferred Stock	335,955
Derivatives	6,396
Receivable (Payable)	(11,553)
Total Funds withheld receivables	2,246,342

g. Investments & Material Income & Expenses for the Reporting Period

Investments for the Reporting Period

A summary of the investments is shown in the following table:

Investment Type	Balance
AFS Securities	43,718
Derivatives	81,358

Material Income & Expenses for the Reporting Period

Most of the company's income and expenses were recorded in the period January 1 to December 18, 2020. This is the period pre-acquisition. The following tables present the material amounts during this period:

Revenue	
Net investment income	20,240

Expense	
Increase (decrease) in policy reserves	227,972
Operating expenses	11,109
Total Expenses	**239,081**

h. Any Other Material Information

On June 1, 2020, FNF completed the acquisition of FGL Holdings ("F&G"), the previous direct parent of F&G Re. Under the agreement terms, FNF issued $27 million shares of FNF common stock and paid approximately $1.8 billion in cash to former holders of FGL ordinary and preferred shares. Subsequently, Ares Management Corporation completed the purchase of F&G Re on December 18, 2020 for $181 million.

The acquisitions were accounted for under the acquisition method of accounting (purchase accounting, or PGAAP), and the Company elected "pushdown" accounting by applying the guidance of Accounting Standard Codification (ASC) 805, Business Combinations. This resulted in the initial recognition of the Company's assets, and liabilities at fair value as of the acquisition dates. The new basis is the basis of the accounting records in the preparation of future financial statements and related disclosures, and prior period results were not restated.

2. CORPORATE GOVERNANCE AND MANAGEMENT

a. Corporate Governance

i. **Board of Directors**

The Board consists of four directors, of which two are executive directors and two are independent, non-executive directors. Board members are all qualified persons with extensive experience operating within the insurance and financial services sector, and will ensure the business is run in line with good corporate governance principles.

The prime responsibility for the sound and prudent management of the Company rests with the Company's Board of Directors (the "Board" or "Board of Directors"). The Board meets on a regular basis (at least quarterly) and has a schedule of matters reserved for its approval. One Director is based in Bermuda and Board meetings are held via tele-conferencing pending a removal of travel restrictions due to Covid 19, after which they will be held in Bermuda.

In general, the Board's responsibility includes the development of strategy and major policies, review of management performance, approval of the annual operating plan, the financial statements and major acquisitions and disposals, and the establishment and maintenance of systems of internal control and corporate governance.

In accordance with international best practices and the BMA requirements defined in the Insurance Code of Conduct, enhanced regulatory standards on commercial (re)insurers and the Insurance Act, the Company has established and maintains a sound corporate governance and risk management framework. The Board has formalized this framework, together with all relevant guidelines, procedures and controls, which are annually reviewed to ensure they remain appropriate given the size and complexity of the business.

The Company is further committed to establishing a governance framework that allows for appropriate segregation of risk ownership, oversight and assurance responsibilities. The members of the Board, both individually and collectively:

- act in good faith, honesty and reasonably;
- exercise due care and diligence;
- ensure stakeholders' interests are protected;
- exercise independent judgement and objectivity in decision making; and
- ensure appropriate policies and procedures are in place to effectively deal with conflicts of interest.

ii. Company Officers

The Company has five officers that provide oversight to the Company's day to day operations:

- Alex Cowley – Chief Executive Officer
- Anthony Donaghy – Principal Representative, Chief Financial Officer, Compliance Officer and Money Laundering Reporting Officer
- Alana Rathbun – Chief Risk Officer
- Danish Iqbal – Chief Actuary
- Eric Linehan – Chief Operations Officer

b. Risk Management and Solvency Self-Assessment

The Company places a high priority to risk management and risk control. As part of our effort to ensure measured risk taking, management has integrated risk management in our daily business activities and strategic planning. We have comprehensive risk management, governance and control procedures in place and have established a dedicated risk management function with responsibility for the formulation of our risk appetite, strategies, policies and limits. The risk management function is also responsible for monitoring our overall market risk exposures and provides review, oversight and support functions on risk-related issues. Our risk appetite is aligned with how our businesses are managed and how we anticipate future regulatory developments.

Our risk governance and control systems enable us to identify, control, monitor and aggregate risks and provide assurance that risks are being measured, monitored and reported adequately and effectively in accordance with the following three principles:

- Management of the business has primary responsibility for the day-to-day management of risk.
- The risk management function has the primary responsibility to align risk taking with strategic planning through risk tolerance and limit setting.

- The internal audit function provides an ongoing independent and objective assessment of the effectiveness of internal controls, including financial and operational risk management.

The Chief Risk Officer ("CRO") heads our risk management process and reports directly to the Chief Executive Officer ("CEO").

We have implemented several limit structures to manage risk. Examples include, but are not limited to, the following:

- At-risk limits on sensitivities of regulatory capital to the capital markets provide the fundamental framework to manage capital markets risks including the risk of asset / liability mismatch;
- Duration and convexity mismatch limits;
- Credit risk concentration limits; and
- Investment and derivative guidelines.

i. **<u>Risk Management and Solvency Self-Assessment Systems Implementation</u>**

The Company's risk management framework is implemented and integrated into its operations through the systems, processes and procedures, and controls developed by management. The Risk Management Committee, Internal Audit and third party consultants review the controls in place to ensure they are effective and provide recommendations to the Board on a quarterly basis. Management information arising from the risk management systems is used to complete Solvency Self-Assessments of the quantity and quality of capital required to support the Company's business goals given the amount of risk the Company has taken (or plans to take) on and environmental factors.

The Solvency Self-Assessment is reviewed on a quarterly basis to ensure that the Company's capital adequacy and liquidity resources are sufficient based on the Company's risks arising from its operations. The Company uses a combination of BSCR and an internal capital model to determine the adequacy of capital.

ii. **<u>Relationship Between Solvency Self-Assessment, Solvency Needs & Capital, and Risk Management</u>**

The Company's Solvency Self-Assessment is a formal guide that outlines the Company's short and longer term business strategy, and the quality and quantity of capital to support these plans. The Solvency Self-Assessment seeks to identify and measure all material risks, and aids in the decision regarding which risks it can eliminate, transfer or retain within its agreed risk appetite and tolerance. The process, upon considering severe stress events, also facilitates the identification of contingent sources of liquidity and capital support to ensure that the Company continues to be able to achieve agreed strategic objectives.

iii. **Solvency Self-Assessment Approval Process**

The Chief Risk Officer is responsible for preparing the Company's Solvency Self-Assessment. After review, the assessment is provided to the Board for approval with emphasis upon the Company's internal capital modelling, current and emerging risk exposures, and how the exposures are mitigated in the risk management framework.

c. Internal Controls

i. Internal Control System

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only with proper authorizations; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. These inherent limitations are an intrinsic part of the financial reporting process. Therefore, although the Company's management is unable to eliminate this risk, it is possible to develop safeguards to reduce it. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
The Company's management assessed the effectiveness of the Company's internal control over financial reporting based on criteria for effective control over financial reporting described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013. Based on this assessment the Company's management concluded that its internal control over financial reporting was in accordance with the COSO criteria.

ii. Compliance Function

The Compliance Officer has the responsibility to monitor regulatory changes and monitors compliance with organisational policies and procedures and adherence to the Company's Code of Ethics. All material violations are reported to the Board and corrected accordingly.

d. Internal Audit

The Internal Audit Department has unrestricted access to all areas and property of the organisation, including personnel records, records held by third-party service providers, and also has direct access to the Board. To ensure the Internal Audit remains independent, its employees are not authorised to perform any operational duties or approve any transactions in the organisation.

Pre-acquisition by Aspida Holdings, i.e. for the period January 1 to December 18, 2020, the company relied on the Internal Audit department of its then parent company FGL Holdings. During 2021 the company will be retaining internal audit services from its new parent company.

e. Actuarial Function

The Actuarial Function is managed internally by the Chief Actuary and actuarial team. The reserves are reviewed by the Chief Executive Officer and Board on a quarterly basis, as well as independently reviewed by external actuaries annually to ensure reasonableness.

f. Outsourcing

Company officers are responsible for the approval and termination of all outsourcing arrangements. All outsourcing arrangements comply with the Insurance Code of Conduct. Key responsibilities include the following:

1) Reviewing the performance of outsourced service providers against the agreed Service Level Agreements (SLA);

2) Assessing the risks associated with the outsourcing of critical or important functions or activities;

3) An assessment of the risks associated with the outsourcing of any function or activity will be undertaken prior to the final decision to outsource any function or activity;

4) All outsourcing arrangements must be organized in a way so that appropriate reporting capabilities are in place and meet the Company qualitative (contents, periodicity, etc.) requirements and needs;

5) Reporting capabilities must equally enable effective management and control of outsourcing arrangements and to identify potential problems at an early stage;

6) All material outsourcing arrangements must be undertaken using a written, legally binding SLA. The SLA must document all components of the outsourcing arrangement between the parties. The contract shall specify the content, frequency and format of the service being provided. It should contain, where appropriate, Key Performance Indicators (KPI's) against which performance can be measured.

i. Material Intra-Group Outsourcing

No material information to report.

g. Other Material Information

No other material information to report.

3. RISK PROFILE

a. Material Risks the Insurer is Exposed to During the Reporting Period

Market risk is the risk of the loss of fair value resulting from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, commodity prices and equity prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. We have significant holdings in financial instruments and are naturally exposed to a variety of market risks. We are primarily exposed to interest rate risk, credit risk and equity price risk and have some exposure to counterparty risk, which affect the fair value of financial instruments subject to market risk.

b. Risk Mitigation in the Organisation

We manage our risk appetite based on two key risk metrics:

- Regulatory Capital Sensitivities: the potential reduction, under a range of moderate to extreme capital markets stress scenarios, of the excess of available statutory capital above the minimum required under BSCR; and
- Earnings Sensitivities: the potential reduction in results of operations over a 30 year time horizon under the same moderate to extreme capital markets stress scenario. Maintaining a consistent level of earnings helps us to finance our operations, support our capital requirements and provide funds to pay dividends to stockholders.

Our risk metrics cover the most important aspects in terms of performance measures where risk can materialize and are representative of the regulatory constraints to which our business is subject. The sensitivities for earnings and statutory capital are important metrics since they provide insight into the level of risk we take under stress scenarios. They also are the basis for internal risk management.

We are also subject to cash flow stress testing pursuant to regulatory requirements. This analysis measures the effect of changes in interest rate assumptions on asset and liability cash flows. The analysis includes the effects of:

- The timing and amount of redemptions and prepayments in our asset portfolio;
- Our derivative portfolio;
- Death benefits and other claims payable under the terms of insurance products;
- Lapses and surrenders;
- Minimum interest guarantees in insurance products; and
- Book value guarantees in insurance products.

c. Investment in Assets in Accordance with the Prudent Person Principles of the Code of Conduct

The Company's investment portfolio is managed by Ares Management Corporation in accordance with the Company's investment policy guidelines. These guidelines require that liquid and stable fixed income securities support technical provisions to ensure that claims can be paid on a timely basis. The size of the high quality investment portfolio is determined by the amount of technical provisions recorded for the quarter plus a safety buffer. These guidelines are reviewed on an annual basis or ad hoc if any significant deviations have occurred that affect the financial markets.

4. SOLVENCY VALUATION

a. Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class

The Company has considered the valuation principles outlined by the Bermuda Monetary Authority's "Guidance Note for Commercial Insurers and Insurance Groups Statutory Reporting Regime" for the reporting period.

The Company's measurement of fair value is based on assumptions used by market participants in pricing the asset or liability, which include inherent risk, restrictions on the sale or use of an asset or non-performance risk, and the Company's own credit risk. The Company's estimate of an exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability ("exit price") in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability, as opposed to the price that would be paid to acquire the asset or receive a liability ("entry price").

The fair value principles used for the assets held directly or assets supporting funds withheld are as follows:

- Cash and Cash Equivalents – includes cash time deposits and investments maturing within 3 months and are valued on a fair value basis. The fair value for investments is determined by mark to market or mark to model principles depending upon whether there is an active market for the security.
- Fixed Income Securities – are valued in accordance with mark to market principles where possible. For fixed income securities that are not actively traded, the Company uses pricing services to prepare inputs to assist the Company with mark to model valuations.
- Equities- includes common stock and preferred shares and are valued using the quoted market prices.
- Derivative instruments- are valued at quoted market prices. In the absence of an active market, prices are based on observable market inputs.
- Other Assets – are based on carrying values due to both the short-term nature and immateriality of such assets.

b. Valuation Bases, Assumptions and Methods to Derive the Value of Each Technical Provisions

The Company has considered valuation principles outlined by the BMA's "Guidance Note for Commercial Insurers and Insurance Groups Statutory Reporting Regime" when determining insurance technical provisions. The techniques used in developing the insurance technical provisions are consistent with BMA guidance.

The primary valuation method used to determine the best estimate technical provisions was the Scenario Approach. The scenario producing the highest reserve in aggregate is selected.

In addition, the Company also 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 quarter.

c. <u>Description of Recoverable from Reinsurance Contracts</u>

Not applicable.

d. <u>Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities</u>

Liabilities for deferred annuity contracts follow FAS 97 and are carried at the accumulated contract holder values without reduction for potential surrender or withdrawal charges. These are equal to the balance that accrue to the benefit of the policyholders as of the financial statement date (commonly referred to as the account value), including, policyholders' accumulated net deposits plus interest credited and investment performance less policyholder withdrawals, fees and policy charges.

Liabilities for fixed index annuity contracts (with embedded derivative) follow FAS 133 and are carried at fair value without reduction for potential surrender or withdrawal charges. The host contract and the embedded derivative are bifurcated. The host contract accrues from one period to the next based on an accrual rate determined at issue. The value of the embedded derivative is the present value of excess cash flows associated with the embedded derivative using risk free rate, risk margin and own credit risk. The Company accounts for movement in the equity index for interest credited, policy holder withdrawals and policy charges. The contracts also have life time withdrawal riders. The liabilities for those riders are calculated separately using SOP 03-1.

Liabilities for payout annuity contracts follow FAS 60 and are established using accepted actuarial valuation methods based on assumptions related to future benefits, investment yields, mortality and maintenance expenses, determined when the policies were assumed. An additional provision is made to allow for potential adverse deviation for some assumptions. Once established, assumptions on these contracts are locked in at inception and not modified unless a reserve deficiency exists.

The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish future policy benefit reserves. The company will also carry out loss recognition testing for reserves set up for Payout Annuity Contracts.

e. Any Other Material Information

No additional material information to report.

ii. CAPITAL MANAGEMENT

a. Eligible capital

i. Capital Management Policy and Process for Capital Needs, How Capital Managed and Material Changes During the Reporting Period

The primary capital management objectives of the Company are to maintain a strong capital base to support the development of its business and to meet regulatory and rating agency capital requirements at all times.

ii. Eligible Capital Categorised by Tiers in Accordance With the Eligible Capital Rules

To enable the BMA to better assess the quality of the insurer's capital resources, a Class C 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. As of December 31, 2020, the eligible capital of $190,181 is Tier 1 Capital.

iii. Eligible Capital Categorised by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act

As of December 31, 2020, there is eligible capital of $190,345 to meet ECR and MSM requirements.

iv. Confirmation of Eligible Capital That is Subject to Transitional Arrangements

Not applicable.

v. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR

Not applicable.

vi. Identification of Ancillary Capital Instruments Approved by the Authority

Not applicable.

vii. Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and Surplus

Not applicable.

b. Regulatory capital requirements

i. ECR and MSM Requirements at the End of the Reporting Period

Class E insurers are required to maintain minimum capital and surplus that is equal to, or in excess of an amount derived from the greater of 1) a risk-based capital model reflective of tail risks, 2) an asset based formula, and 3) an $8,000,000 floor. The Company met the minimum requirements.

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

Not applicable.

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

Not applicable.

iv. Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance

Not applicable.

c. Approved Internal Capital Model

i. Description of the Purpose and Scope of the Business and Risk Areas Where the Internal Model is Used

Not applicable - the Company has not applied to have its internal capital model approved to determine regulatory capital requirements.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

vii. **Any Other Material Information**

Not applicable.

Declaration

To the best of our knowledge and belief, we the undersigned confirm that the Financial Condition Report fairly represents the financial condition of the Company in all material respects:

Alex Cowley

Alex Cowley
CEO
April 28, 2021

Anthony Donaghy

Anthony Donaghy
Chief Financial Officer and Principal Representative
April 28, 2021