Pacific Life Re Global Limited and
its subsidiaries

# Financial Condition Report ("FCR")

For the year ended 31 December 2022

Forming part of the annual regulatory reporting package submitted to the Bermuda Monetary Authority ("BMA") by 26 April 2023.

# Declaration Statement

To the best of our knowledge and belief, the financial condition report fairly represents the financial condition of Pacific Life Re Global Limited and its subsidiaries as at 31 December 2022 in all material respects.

DocuSigned by:
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David Howell

Chief Executive Officer,
Chair & Principal Representative

25 April 2023

DocuSigned by:
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Rhys Faulkner

Chief Actuary and
Chief Pricing Officer

25 April 2023

# Contents

# Executive Summary

The purpose of the report is to provide additional qualitative and quantitative information, over and above that contained in the annual audited financial statements, to policyholders and other stakeholders to understand the performance, governance structure, risk profile, solvency and capital position of Pacific Life Re Global Limited ("RGBM") and its subsidiaries ("the Company") as at 31 December 2022. Unless the context indicates otherwise, the terms "the Company" or "our" means Pacific Life Re Global Limited and its consolidated subsidiaries.

This Financial Condition Report ("FCR") is prepared in compliance with the Bermuda Insurance (Public Disclosure) Rules 2015, following the structure and guidelines contained therein. All figures provided in the report are in United States dollars. The functional currencies of the Company are the Pound Sterling, United States Dollar, Canadian Dollar, Australian Dollar and Korean Won.

This FCR has six sections:

A Business and Performance;
B Governance Structure;
C Risk Profile;
D Valuation for Solvency Purposes;
E Capital Management; and
F Subsequent Event.

## A Business and Performance

This section provides particulars regarding the organisational structure, insurance business activities and financial performance.

**Organisational structure and Description of Business**

RGBM, including its wholly owned and controlled subsidiaries, Pacific Life Re International Limited ("RIBM"), Pacific Life Re Holdings Limited ("PLRH"), Pacific Life Re Limited ("PLRL") and Pacific Life Re (Australia) Pty Limited ("PLRA"), is a wholly owned subsidiary of Pacific Life Re Holdings LLC ("PLRH LLC"), which is in turn wholly owned by Pacific LifeCorp ("PLC"). PLRH LLC is a limited liability company organised under the laws of Delaware. PLC is an intermediate Delaware stock holding company. PLC is a wholly owned subsidiary of Pacific Mutual Holding Company ("PMHC"), a Nebraska mutual holding company (and ultimate parent of the Company). The Company provides life reinsurance and life retrocession solutions to its customers.

RGBM is a reinsurance carrier participating in PMHC's global life reinsurance division ("Pacific Life Re", "PL Re" or the "Division"). The group structure can be seen in section A5 below. The Division operates through a Division Centre and five business units ("BU" or "Business Unit") based on geographic location and/or business channel, as follows: Pacific Life Re Europe ("Europe"), Pacific Life Re Asia ("Asia"), Pacific Life Re Australia ("Australia"), Pacific Life Re Retro ("Retro"), and UnderwriteMe.

Both RGBM and RIBM are Bermuda domiciled reinsurance companies licensed individually as Class E long-term insurers by the Bermuda Monetary Authority ("BMA"). RGBM assumes life retrocession business from affiliated and non-affiliated companies. From 1 January 2023, RGBM no longer assumes life retrocession business from non-affiliated companies. RIBM provides reinsurance services, directly and via its branches, in the UK, Ireland Singapore, as well as retrocession services for PLRA. From 1 January 2023, it also started to provide reinsurance and retrocession services, via its branches in South Korea and Canada.

PLRH, a UK domiciled holdings company, is a wholly owned and direct subsidiary of RIBM. PLRL, a wholly owned direct subsidiary of PLRH, is an international reinsurance company registered in the United Kingdom and regulated and authorised by the Prudential Regulatory Authority and the Financial Conduct Authority. Until 1 January, PLRL wrote life reinsurance business in Europe, Asia, and Canada and provided retrocession services to PLRA. From 1 January 2022, PLRL only wrote new business in South Korea and Canada. On 1 January 2023, the Canada business was novated to RIBM and the South Korea business was transferred to RIBM from PLRL. Having transferred all the business out of PLRL, PLRL has approved and commenced the process of cancelling all of its regulatory permissions in the UK legal entity and its branches. It is expected that PLRL will be fully deauthorised and subsequently wound up in the first half of 2024. PLRH is expected to be wound up in the first half of 2024 alongside PLRL.

PLRA is a wholly owned Australia domiciled reinsurance company that is regulated and authorised by the Australian Prudential Regulation Authority ("APRA"), engaged in providing traditional reinsurance which includes individual and group life and health, disability, and critical illness and income protection reinsurance in Australia.

**Business Transfers and Restructuring**

The Division commenced a project in 2019 to move the Division's headquarters to Bermuda and created two new regulated entities in Bermuda, RGBM and RIBM. On 25 June 2021, a Business Transfer Agreement was signed governing the transfer of business between PLRL and RIBM.

On 1 July 2021, two treaties written in the Singapore branch of PLRL were transferred to RIBM by means of individual novation of treaties. On 1 January 2022, the remaining reinsurance business written by the Singapore branch of PLRL was transferred to RIBM by means of individual novation of treaties. On the same day, the reinsurance business governed by English Law was transferred to RIBM by means of an insurance business transfer under Part VII of the Financial Services and Markets Act 2000 and an additional business transfer under a Guernsey insurance business transfer scheme was completed with an effective date of 1 January 2022. The remaining Europe Business Unit treaties not written under English law were transferred to RIBM by means of individual novation of treaties with an effective date of 1 January 2022. The retrocession contract with PLRA was also novated to RIBM on 1 January 2022. Loan notes were issued by RIBM to PLRL as consideration for the transfers that occurred on 1 January 2022.

On 18 November 2021, RIBM received approval from the BMA for a Tier 2 Ancillary Capital arrangement of up to $230.0 million. The arrangement is effective from 1 January 2022.

On 1 January 2022, the retrocession treaties between Pacific Life Insurance Company ("PLIC") and PLRL were novated to UK branch of RIBM.

On 1 January 2022, the retrocession treaty between RGBM and PLRL was novated to the UK branch of RIBM. On the same day, the retrocession treaty was recaptured.

On 2 November 2022, the retrocession treaty between PLRA and PLRL to RIBM was amended with effect from: (a) 1 January 2022, adding a right for either PLRA or RIBM to terminate the retro treaty to new business flowing from a specific reinsurance treaty; and (b)1 October 2022, terminating the retrocession arrangements for new risk under the revised TAL-BT Treaty.

On 1 January 2023, the PLRL Canada Branch business was transferred to the Canada Branch of RIBM by way of individual novation of treaties. Loan notes were issued by RIBM to PLRL as consideration for the Canada business transfers. On 1 January 2023, the majority of Canadian market reinsurance business in RGBM was transferred to RIBM Canada branch through novation of individual treaties. On the same day the retrocession arrangement between PLRL Canada Branch and PLIC was recaptured. Also on 1 January 2023, RIBM Canada branch set up two new 75% retrocession treaties with RGBM, one for Protection and the other for Longevity business.

On 1 January 2023 the PLRL Korea Branch business was transferred to the Korea Branch of RIBM by way of a Korean law portfolio transfer for cash.

Having transferred all the business out of PLRL during the period, PLRL has approved and commenced the process of cancelling all of its regulatory permissions in the UK legal entity and its branches. (The Singapore Branch of PLRL was deauthorised on 8 June 2022.) It is expected that PLRL will be fully deauthorised and then subsequently wound up in the first half of 2024.

PLRH is expected to be wound up in the first half of 2024 alongside PLRL.

### Performance

The Company's underwriting result on a United States of America Generally Accepted Accounting Principles ("US GAAP") consolidated basis for the year ended 31 December 2022 was income of $73.4 million (2021: $5.9 million). The main drivers for the increase in the underwriting result is:

- better claims experience mainly driven by income protection business in Australia and longevity business in Europe, offset by large claims in retrocession business,
- PLIC to RGBM restrike in 2021 that didn't occur in 2022, partially offset by
- the termination of inforce treaties in Australia.

The investment performance for the year ended 31 December 2022 returned a net investment gain of $104.7m million (2021: $91.7 million). The main drivers of the investment performance were as follows:

- movement in fair value of funds withheld,
- increase in interest income due to increased income from inflation-linked bonds and an increase in the underlying investments, partially offset by
- net realised loss from sale of fixed income securities.

The unrealised losses from the fixed income securities, net of tax, increased to $503.4 million (2021: $166.3 million). These were due to a global rise in bond yields as a result of central banks raising interest rates to combat inflation.

## B. Governance Structure

The Company is subject to an overarching system of governance which is consistently applied to the whole Division. The system of governance has been designed to promote the sound, effective and prudent management of the reinsurance and retrocession carriers (i.e. RGBM, RIBM, PLRL and PLRA) within the Division. In addition to the Division system of governance, each of PLRH, PLRL and PLRA has a separate system of governance.

Central to the Division system of governance is RGBM's Board (the "Board") and RIBM's Board. The Board comprises a mix of executive directors and non-executive directors ("NEDs") including independent non-executive directors ("INEDs"). The Board is responsible for the overall oversight of the Company including:

- setting the corporate strategy and overseeing management's prudent and effective planning for and implementation of the same;
- adopting and maintaining a system of governance framework and related corporate governance, controls, and risk management; and
- approving the Company's risk appetite and overseeing its effective implementation and monitoring by management.

The Board has delegated some of its powers and discretions to the following permanent committees:

- Board Audit Committee ("BAC") (which is responsible for matters set out in its terms of reference, including assisting the Board in the financial reporting processes, internal controls, and internal/external audit processes);
- Board Risk Committee ("BRC") (which is responsible for matters set out in its terms of reference and advising the Board on the Company's risk framework); and
- Board Remuneration Committee ("RemCo") (which is responsible for matters set out in its terms of reference and advising the Board on the Company's remuneration).

Overall responsibility for the internal audit function rests with the Division Head of Internal Audit, who, in order to maintain independence, has a direct reporting line to the Head of the Pacific Life Group internal audit function. The annual internal and external audit plans are reviewed and approved by the BAC.

## C Risk Profile

The Company's key risks consist of insurance risks i.e., longevity, mortality, morbidity, and persistency, and market risks, i.e., interest rates, currency, and credit spreads.

As at 31 December 2022 the Company's in-force portfolio consisted of protection reinsurance and retrocession business and longevity reinsurance business. The protection business consists of mortality and morbidity risks written in North America, UK and Ireland, and the Singapore and Korea branches, as well as protection reinsurance of both retail insurance products and insurance provided through large superannuation funds (group insurance) written in Australia. The longevity business comprises both longevity swap and asset backed longevity risk transfer business, mainly in the UK.

In line with the Company's Risk Strategy, this primarily results in preferred insurance risks (longevity, mortality and morbidity) being written. Insurance business is subject to risk appetites and limits set out in the Division Insurance Risk Policy.

Management have continued to monitor the development of the COVID-19 pandemic on staff, operations, business planning and claims as globally this transitions to an endemic. The total impact of pandemic claims is within the total mortality shock stress capital and will now be considered endemic so specific monitoring has ceased.

At the time of writing, there continues to be clear humanitarian concerns in relation to the military conflict between Russia and Ukraine. Management have assessed our financial, insurance, and operational risk positions. Management have reviewed the investment portfolios for exposure to assets that might be impacted by ongoing instability in Ukraine. None of the investments held by the Company have direct exposure to any Russian or Ukrainian issuers. The Company has no direct insurance exposure to Russia or Ukraine. Operational considerations include our SAP data centres in Poland. Management have undertaken business impact assessments in relation to these data centres and business continuity plans are in place. Disaster recovery testing was completed successfully in 2022. The Russia-Ukraine situation will remain an area of continued monitoring as the situation develops over time.

## D Valuation for Solvency Purposes

The bases, methods and main assumptions used for the valuation of the Company's assets, technical provisions and other liabilities have been prepared in line with the BMA basis. The Economic Balance Sheet ("EBS") measurement basis is fair value, using quoted prices for invested assets where available. The fair value of an asset is the amount for which it could be exchanged between knowledgeable willing parties in an arm's length transaction.

## E Capital Management

The Company's BMA Bermuda Solvency Capital Requirement ("BSCR") is the Transition Enhanced Capital Requirement ("ECR"). The ECR is a blend of the original basis and revised methodology following the revision of the BSCR by the BMA in 2019. As at 31 December 2022, the Company has an ECR of $714.9 million (2021: $811.3 million) and a solvency coverage ratio of 221% (2021: 301%). The minimum margin of solvency ("MSM") is calculated using a formulaic approach. Only Eligible capital (Tier 1 & 2) is available to cover the MSM, subject to limits. The Company has an MSM ratio at 31 December 2022 of 643% (2021: 1,045%).

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| Eligible Capital for ECR | 1,580,539 | 2,439,548 |
| ECR | 714,887 | 811,280 |
| **ECR Ratio** | **221%** | **301%** |
| Eligible Capital for MSM | 1,148,779 | 2,120,441 |
| MSM | 178,722 | 202,820 |
| **MSM Ratio** | **643%** | **1045%** |

## F Subsequent Events

On 1 January 2023, the PLRL Canada Branch business was transferred to the Canada Branch of RIBM by way of individual novation of treaties. Loan notes were issued by RIBM to PLRL as consideration for the Canada business transfers. On 1 January 2023, the majority of Canadian market reinsurance business in RGBM was transferred to RIBM Canada branch through novation of individual treaties. On the same day the retrocession arrangement between PLRL Canada Branch and PLIC was recaptured. Also on 1 January 2023, RIBM Canada branch set up two new 75% retrocession treaties with RGBM, one for Protection and the other for Longevity business.

On 1 January 2023, the PLRL Korea Branch business was transferred to the Korea Branch of RIBM by way of a Korean law portfolio transfer.

Having transferred all the business out of PLRL during the period, PLRL has approved and commenced the process of cancelling all of its regulatory permissions in the UK legal entity and its branches. (The Singapore Branch of PLRL was deauthorised on 8 June 2022.) It is expected that PLRL will be fully deauthorised and then subsequently wound up in the first half of 2024.

PLRH is expected to be wound up in the first half of 2024 alongside PLRL.

On 20 March 2023, RGBM declared a distribution of £9 million ($11 million) to PLRH LLC, which was settled on 28 March 2023.

On 10 February 2023, Jay Orlandi was appointed as non-executive director of RGBM, representing Pacific Life. He was also appointed as Chairperson of RemCo on 11 February 2023. On 20 March 2023, Vibhu Sharma was appointed as non-executive director of the RIBM, representing Pacific Life. Both directors also became members of RGBM's Risk and Audit Committees. Also on 20 March 2023, Gary Falde, non-executive director of RGBM, representing Pacific Life, resigned from the Board and all committees.

The Pacific Life Group has been designated an Internationally Active Insurance Group ("IAIG") with effect from 5 February 2023. The designation has been made by the Nebraska Department of Insurance (Nebraska DOI) under the rules of the International Association of Insurance Supervisors.

# A Business and Performance

# A. Business and Performance

## A.1 Name and legal form of the undertaking

Pacific Life Re Global Limited ("RGBM").

## A.2 Name and contact details of the insurance supervisor and group supervisor

| | ***Insurance Supervisor*** | ***Group Supervisor*** |
|---|---|---|
| *Name:* | *Bermuda Monetary Authority, BMA House, 43 Victoria Street, Hamilton HM 12 Bermuda* | *The Nebraska Department of Insurance, PO Box 82089, Lincoln, Nebraska 68501-2089* |
| *Jurisdiction:* | *Bermuda* | *Nebraska, USA* |
| *Email Address:* | *insuranceinfo@bma.bm* | *Laura.Arp@Nebraska.gov* |
| *Phone Number:* | *+1 441-295-5278* | *402-471-2201* |

## A.3 Name and contact details of the approved auditor

| | |
|---|---|
| Organisation: | Deloitte Ltd<br>Corner House, 20 Parliament Street, Hamilton HM 12, Bermuda |
| Name: | *Muhammad Khan* |
| Jurisdiction: | Bermuda |
| Email Address: | *muhammad.khan@deloitte.com* |
| Phone Number: | +1 441-292-1500 |

## A.4 Qualifying holdings in the undertaking

| Owner Name | Ownership Percentage |
|---|---|
| Pacific Life Re Holdings LLC | 100% |

The ultimate parent company and controlling party of the Company is PMHC.

## A.5 Group structure

The corporate structure of the Bermuda operating entities and subsidiaries, including their United States ("US") intermediate parent company, as at 31 December 2022, is set out below:

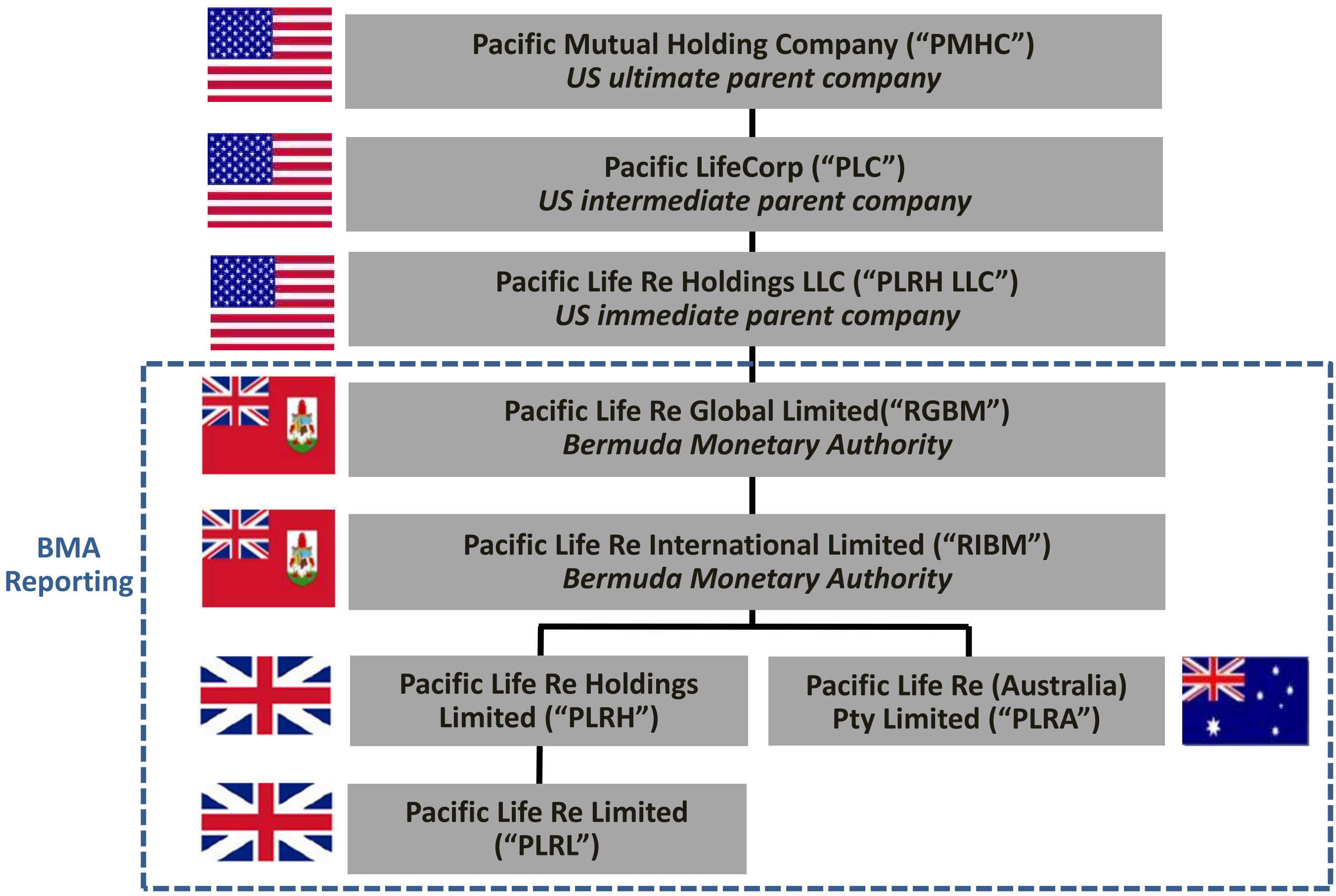


*Figure 1 - Corporate structure chart*

For more than 150 years, the Pacific Life Group, headquartered in California, has been providing financial protection and retirement solutions. During this time, the Pacific Life Group has expanded both in product and service lines as well as in geographic presence. During a 1997 corporate restructuring, PMHC was formed to become the ultimate parent company of the Group.

The Pacific Life Group's primary business operations include (1) providing life insurance products, annuities and mutual funds; (2) offering to individuals, businesses and pension plans a variety of investment products and services; and (3) offering a comprehensive range of wholesale life risk management products to other insurers and reinsurers, this latter category being the reinsurance business carried on by PL Re.

PL Re comprises the Pacific Life Group's reinsurance business and operations. These encompass the reinsurance and retrocession business carried on by RGBM, RIBM and their affiliate companies PLIC, PLRL and PLRA.

PL Re is one of the largest and most experienced reinsurance providers in the life reinsurance and longevity market. PL Re provides life, critical illness, income protection, hospital cash, and longevity reinsurance and retrocession products and services.

## A.6 Insurance business written by business segment and by geographical areas of operation during the reporting period

The table below shows the business written by geographic location on a US GAAP consolidated basis for the years ended 31 December 2022 and 2021.

| | US GAAP 2022 | | | | |
|---|---|---|---|---|---|
| | Australia | Asia | Europe | North America | Total |
| **Premiums** | $'000 | $'000 | $'000 | $'000 | $'000 |
| Gross | 383,420 | 231,035 | 1,150,876 | 339,367 | 2,104,698 |
| Reinsurers' share | (17) | (1,130) | (71,108) | (3,114) | (75,368) |
| Other Insurance Income | - | 846 | 2,394 | - | 3,240 |
| **Net** | **383,403** | **230,751** | **1,082,163** | **336,253** | **2,032,570** |

| | US GAAP 2021 | | | | |
|---|---|---|---|---|---|
| | Australia | Asia | Europe | North America | Total |
| **Premiums** | $'000 | $'000 | $'000 | $'000 | $'000 |
| Gross | 529,284 | 235,991 | 822,967 | 466,784 | 2,055,026 |
| Reinsurers' share | (31,207) | - | (83,868) | (3,064) | (118,139) |
| Other Insurance Income | - | 1,358 | 6,607 | 3,479 | 11,444 |
| **Net** | **498,077** | **237,349** | **745,706** | **467,199** | **1,948,331** |

*Figure 2 - Summary of business written over the reporting period by geographical location*

The increase in the premiums earned compared to 2021 is largely due to the following:

- increased premium in the Global Funded Solutions ("GFS") business as a result of the single premium new businesses written in 2022, partly offset by,
- the termination of inforce treaties in Australia
- premiums in 2021 were higher due to the PLIC to RGBM treaty restrike which was a one-off transaction so did not reoccur in 2022 in North America business.

The table below shows the business written by business segment on a US GAAP consolidated basis for the years ended 31 December 2022 and 2021.

| | US GAAP 2022 | | | |
|---|---|---|---|---|
| | Protection | Single Premium Annuity | Longevity | Total |
| **Premiums** | $'000 | $'000 | $'000 | $'000 |
| Gross | 1,595,566 | 379,400 | 129,732 | 2,104,698 |
| Reinsurers' share | (8,535) | - | (66,833) | (75,368) |
| Other Insurance Income | 846 | - | 2,394 | 3,240 |
| **Net** | **1,587,877** | **379,400** | **65,294** | **2,032,570** |

| | US GAAP 2021 | | |
|---|---|---|---|
| | Protection | Longevity | Total |
| **Premiums** | $'000 | $'000 | $'000 |
| Gross | 1,908,085 | 146,941 | 2,055,026 |
| Reinsurers' share | (42,663) | (75,476) | (118,139) |
| Other Insurance Income | 4,837 | 6,607 | 11,444 |
| **Net** | **1,870,259** | **78,072** | **1,948,330** |

*Figure 3 - Summary of business written over the reporting period by business segment*

## A.7 Performance of investments and material income and expenses for the reporting period

The performance of investments and material income and expenses for the reporting period are presented below on a US GAAP consolidated basis.

### Information on income and expenses arising from investments over the reporting period

The following table shows the fair market value of the Company's investment portfolio:

| | US GAAP | |
|---|---|---|
| | 2022 | 2021 |
| **Fixed Income Securities** | $'000 | $'000 |
| US Government | - | 254,768 |
| Non-US Government | 970,286 | 1,375,082 |
| US States, Municipalities, and Political Subdivision | 502,074 | 653,660 |
| Corporate Securities | 1,058,562 | 1,267,669 |
| Asset and Mortgage backed Securities | 19,416 | 18,320 |
| **Total** | **2,550,338** | **3,569,499** |

*Figure 4 - Summary of fixed income securities by investment type*

The decrease from 2021 is largely due to the unrealised losses on fixed income securities driven by rising bond yields as a result of interest rate rises, along with net sales of bonds, partially offset by invested premium from new business written in GFS.

Income and expenses arising from investments over the reporting period are shown below:

| | | US GAAP | |
|---|---|---|---|
| | | 2022 | 2021 |
| | | $'000 | $'000 |
| Investment income | Fixed income securities | 80,568 | 67,926 |
| | Cash | 464 | 24 |
| | **Total** | **81,032** | **67,950** |
| | | | |
| Gains/(losses) on fixed income securities | Realised gains | 62,907 | 30,346 |
| | Realised losses | (35,453) | (2,154) |
| | **Total** | **27,455** | **28,192** |
| Less: Investment expenses | | (3,737) | (4,413) |
| **Total net investment income** | | **104,749** | **91,729** |

*Figure 5 - Summary of earned investment income over the reporting period.*

The Company earned investment income on fixed income securities of $81.0 million during the year ended 31 December 2022 (2021: $68.0 million).

The Company realised net gains on its fixed income securities of $27.5 million during the year ended 31 December 2022 (2021: $28.2 million). The change in net gains was driven by higher gain in fair value of funds withheld in Europe mostly offset by the realised losses due to selling bonds in a loss-making position.

## Material income and expenses during the reporting period

### Underwriting result

The Company's underwriting result on a US GAAP consolidated basis for the year ended 31 December 2022 was income of $73.4 million (2021: $5.9 million). The main drivers for the change in the underwriting result were as follows:

- better claims experience mainly driven by income protection business in Australia and longevity business in Europe, offsetting with large claims in retrocession business,
- PLIC to RGBM restrike in 2021 that didn't occur in 2022, partially offset by
- the termination of inforce treaties in Australia.

| | US GAAP | |
|---|---|---|
| | 2022 | 2021 |
| | $'000 | $'000 |
| **Premiums** | | |
| Gross | 2,104,698 | 2,055,026 |
| Reinsurers' share | (75,368) | (118,139) |
| Other Insurance Income | 3,240 | 11,444 |
| **Net** | **2,032,570** | **1,948,331** |
| **Policy benefits incurred** | | |
| Gross | 1,319,712 | 1,234,232 |
| Reinsurers' share | (26,589) | (35,452) |
| **Net** | **1,293,123** | **1,198,780** |
| **Change in future policy benefit reserves** | | |
| Gross | 343,759 | 372,424 |
| Reinsurers' share | 128,781 | 112,213 |
| **Net** | **472,541** | **484,637** |
| **Acquisition costs, including commission and other insurance expenses** | | |
| Gross | 197,288 | 264,424 |
| Reinsurers' share | (3,516) | (5,433) |
| **Net** | **193,772** | **258,991** |
| | | |
| **Underwriting result** | **73,134** | **5,922** |

*Figure 6 - Summary of the underwriting result over the reporting period.*

**Reconciliation of underwriting result to the loss for the year in the US GAAP consolidated financial statements.**

| | US GAAP | |
|---|---|---|
| | 2022 | 2021 |
| | $'000 | $'000 |
| Underwriting result (figure 6) | 73,134 | 5,922 |
| Net investment income (figure 5) | 104,749 | 91,729 |
| Other income | 2,163 | 376 |
| Operating expenses | (207,598) | (186,042) |
| Interest expenses | (1,162) | (1,423) |
| Tax provision/(charge) (figure 8) | 20,926 | (17,712) |
| **Net loss, US GAAP consolidated financial statements** | **(7,789)** | **(107,149)** |

*Figure 7 - reconciliation from the underwriting result to the net loss in the US GAAP consolidated financial statements*

**Operating expenses**

| | US GAAP | |
|---|---|---|
| | 2022 | 2021 |
| | $'000 | $'000 |
| Operating expenses | 207,598 | 186,042 |
| **Total operating expenses** | **207,598** | **186,042** |

*Figure 8 - Operating expenses*

Operating expenses include employee costs, property costs and IT costs and recharges thereof.

**Tax charged to the Statement of Operations**

| | US GAAP | |
|---|---|---|
| | 2022 | 2021 |
| | $'000 | $'000 |
| Current tax charge/(credit) | 75,078 | (6,856) |
| Deferred tax (credit)/charge | (96,004) | 24,568 |
| **Total tax (credit)/charge** | **(20,926)** | **17,712** |

*Figure 9 - Summary of tax charge over the reporting period*

Tax credit in the year driven by the release of deferred tax liabilities related to the group restructuring, partially offset by tax payable on the transfers and payable on the profit for the year.

**Intra-group transactions**

The material intra-group transactions are included in the 'transactions with affiliates' note in the RGBM US GAAP consolidated financial statements.

## A.8 Any other material information

The Company's pledged assets are included in the 'commitments and contingencies' note in the RGBM US GAAP consolidated financial statements.

# B Governance structure

# B. Governance Structure

## B.1 General information on the system of governance

The Company is subject to an overarching system of governance that applies to the whole Division. The system of governance document describes the main elements of the Division's system of governance and is available to all staff. The document is approved by the Board and is reviewed and updated annually.

### Board and Senior Executives

The Board of Directors fulfils a critical role in the sound and prudent governance, oversight and successful operation of the Company. The mix of skill, knowledge, expertise and experience within the Board is commensurate with the nature, scale and complexity of the business and its composition is reviewed by the Chair annually. The Board meets at least four times a year and conducts a self-assessment of its performance and effectiveness annually, led by the Chair. The Board's powers, authorities and duties are vested in it by RGBM's Bye-Laws, RGBM's Board Reserved Matters, the Division system of governance, Treaty Authority documents (where relevant) and is subject to the Code of Conduct adopted by the BMA and the Bermuda Insurance Act 1978 as amended.

The Chair of the Board is responsible for the operation, leadership and governance of the Board, ensuring its effectiveness and setting its agenda.

The Chief Executive Officer ("CEO") has delegated authority from the Board to manage the business of the Company on a day-to-day basis.

The NEDs all have industry relevant experience and are responsible for providing guidance to and challenging the executives. As at 31 December 2022, the Board consists of four NEDs, three of which are INEDs. In 2022, one of the INEDs was designated as the Lead Director and acts as the chair and in various discussions with the executives relating to the CEO remuneration arrangements.

The responsibilities of the Directors are agreed with each Director.

Members of the RGBM Board who served during the year ended 31 December 2022 were as follows:

| Members | Role | Date Appointed/(Resigned) |
|---|---|---|
| **David Howell** | Chief Executive Officer and Chair | 31 March 2020 |
| **Rhys Faulkner** | Chief Actuary and Chief Pricing Officer | 31 March 2020 |
| **Robert Diefenbacher** | Executive Director | Continued directorship from Pacific Life Re (Barbados) Limited |
| **Gary Falde** | NED (Pacific Life Representative) | 31 March 2020<br>(resigned 20 March 2023) |
| **Amanda Sodergren** | INED and Chair of the Audit Committee and Risk Committee and Lead Director | 1 September 2020 |
| **Costas Miranthis** | INED | 1 September 2020 |
| **Kirstin Gould** | INED | 1 September 2020 |
| **Kerri Michelle Moloney** | Division Chief Risk Officer | 28 September 2021 |
| **Jay Orlandi** | NED (Pacific Life Representative) | 11 February 2023 |
| **Vibhu Sharma** | NED (Pacific Life Representative) | 20 March 2023 |

*Figure 10 - Members of the Board who served during the year ended 31 December 2022.*

## Board Committees

The Board has delegated some of its powers and discretions to the following permanent committees, and the scope of that delegation is set out in the relevant committee's terms of reference:

- Board Audit Committee (BAC);
- Board Risk Committee (BRC); and
- Board Remuneration Committee (RemCo).

**Board Audit Committee**

The BAC is responsible for assisting the Board in carrying out its duties in respect of financial reporting processes, internal controls, performance of the internal and external audit processes, approval of the annual accounts.

The Company's BAC consists of a mix of Executives and NEDs of which four members are NEDs, with three being INEDs and one non-independent NED. It meets four times a year with the mandate to convene additional meetings as circumstances require. The Chairperson of the BAC is an INED.

**Board Risk Committee**

The BRC is responsible for assisting the Board in its oversight of the Company's risk framework, including oversight of overall design of the framework, risk strategy, risk appetite, Capital Management Policy and other risk policies relevant to the Company.

The BRC oversees the risk function's implementation of the framework, in particular, the annual Commercial Insurer's Solvency Self-Assessment ("CISSA"), and is responsible for monitoring risk exposures in relation to RGBM's risk appetite. It is also responsible for reviewing the adequacy and effectiveness of risk management information ("Risk MI"), any exceptions reported therein, and the adequacy and effectiveness of actions proposed by management to address them.

As at 31 December 2022 the Company's BRC consists of a mix of Executives, INEDs and one non-independent NED. The Chairperson of the BRC is an INED. The BRC meets at least four times a year with the mandate to convene additional meetings as circumstances require.

**Board Remuneration Committee**

The RemCo meets at least annually and is responsible for reviewing an annual report prepared by management which details the Company's proposed fixed and variable remuneration for staff serving in the previous year, compliance with the principles set out in the Division Remuneration Policy and whether the Division Remuneration Policy and practices are effective and consistent with effective risk management and regulatory requirements.

The Division CEO was the Chairperson of RemCo during the reporting period, and reported annually to the RGBM Board on RemCo activities. Other members of RemCo during the reporting period include three INEDs. The Chief Executive Officer of the Pacific Life Group (the "PL CEO") consults with Pacific Life HR team on the employment arrangements relating to the Division CEO. The PL CEO's recommendations on the Division CEO employment arrangements will be presented to the Lead Director for review and approval on behalf of the Company's Board and RemCo.

Jay Orlandi, a non-executive director and representative of Pacific Life became Chairperson of RemCo on 11 February 2023.

## Executive responsibility

### Bermuda Executive Team

The Bermuda Executive Team is responsible for head office operations of RGBM, RIBM and the branches, as well as Pacific Life Services Bermuda Limited ("RSBM") and Pacific Life Holdings Bermuda Limited ("RHBM"). The team comprises of:

- The CEO;
- The Division Chief Risk Officer ("CRO");
- The Chief Financial Officer ("CFO"); and
- The Chief Actuary and Chief Pricing Officer.

### Division Executive Committee

The Division Executive Committee ("ExCo") is responsible for day-to-day management of the Company's business affairs and is chaired and led by the Division CEO. The ExCo's duties include formulating strategy proposals for Board approval and ensuring that the agreed strategy is implemented in a timely and effective manner.

Division ExCo decisions and recommendations are subject to the Board Reserved Matters of RGBM. To that extent, any decisions and recommendations made by the Division ExCo which are subject to Board Reserved Matters may be altered, adapted or rejected by RGBM's Board.

## Remuneration Policy

The Company recognises that employee rewards and incentives are a significant determinant of behaviour and that setting these appropriately is an important means to nurture an appropriate risk culture and to ultimately promote the long-term success of the business.

The Company has adopted the Division's Remuneration Policy, the objectives of which are:

- to align individual objectives with the strategy and the interests of the relevant BU, the Division and PMHC, the ultimate shareholder of the Company;
- to ensure that, so far as is possible, the incentives applicable to individual employees are consistent with effective risk management and that any perverse incentives are eliminated;
- to mitigate the potential for any misalignment of incentives to result in adverse outcomes for the business, its clients or its ultimate shareholder;
- to establish a clear and transparent process for the setting of incentives and the determination of any subjective judgements; and
- to establish clear roles and responsibilities for those involved in remuneration decisions and processes.

Across the Division, for most team members, remuneration is comprised of two component parts: fixed remuneration and variable remuneration. Senior leadership remuneration comprises a third element, long term incentive plan ("LTIP"), which encourages a long-term strategic outlook. Further, remuneration for non-executive directors is determined with reference to market rates to encourage strong candidates and appropriate discharge of duties. These are explained more fully below.

### *Fixed remuneration*

Fixed remuneration takes into account an individual's professional experience and qualifications, relevant laws and regulations, local labour market conditions and internal benchmarking.

***Variable remuneration – annual incentive plan***

PL Re has implemented an annual incentive plan ("AIP"), which is designed to create a strong relationship between an employee's performance and reward. An employee's AIP target is set depending on the level of the employee's seniority and is based on a percentage of the employee's annual salary.

An AIP bonus is determined by an employee's own performance, as well as that of the Division and the BU in which they work. Heads of Legal, Corporate Actuarial/In-force Management and Risk Management teams are part of the Division Bonus Pool (rather than their BU Pool) in order to ensure independence of their incentives from the results of the BU that they work in.

***Variable - long term incentive plan***

The purpose of the Division's rolling LTIP is to incentivise the ExCo and certain other senior employees by aligning their interests with the longer-term strategy of Pacific Life. An employee's LTIP target is set depending on the level of the employee's seniority and is based on a percentage of the employee's annual salary.

The LTIP remuneration is based on the Division's post-tax US GAAP RoE over a three-year period and metrics associated with the wider Pacific Life group. Explicit arrangements are included to allow for non-payment in case of material adverse corporate or individual performance.

**Non-Executive Directors**

The remuneration of INEDs is designed to attract and maintain high quality board members while being consistent with and supportive of maintaining their independence. The INEDs receive a set fee for their services and are not entitled to any performance-based options or bonus payments. The NED who represented Pacific Life received no remuneration relating to his role as a Director until he entered into arrangements directly with the Company on 28 March 2022.

## Supplementary pension or early retirement schemes

Employees of Division entities may be eligible to participate in pension or superannuation schemes.

## Material transactions over the period with persons who exercise significant influence

During the year ended on 31 December 2022, RGBM was party to the following material transactions with one or more of its shareholders, persons who exercise significant influence, the Board or senior executives:

- On 1 January 2022, the retrocession treaty between RGBM and PLRL was novated to RIBM UK branch. On 1 January 2022, the retrocession treaty was recaptured.

- On 23 September 2021, RIBM entered into a promissory note agreement of $100 million with PLIC. There was an initial draw down of $70.0 million, which was repayable on 30 September 2022. Interest on the loan was calculated at a fixed rate of 0.7% per annum on the drawn amount and 0.2% on the undrawn facility. The total interest paid for the year ended 31 December 2022 was $0.3 million (2021: $0.1 million), with an undrawn fee of $0.02 million. This amount was fully repaid and the note was cancelled on 6 May 2022.

- On 18 November 2021, RIBM received approval from the BMA for a Tier 2 Ancillary Capital arrangement of up to $230.0 million. The arrangement is effective from 1 January 2022.

- On 9 December 2021, RGBM received a short-term promissory note of $200 million from PLC which matured on 31 March 2022. The full amount was drawn down in 2021. Interest on the loan is calculated at a fixed rate of 0.6% on the drawn amount and 0.15% on the undrawn facility. The total interest paid for the year ended 31 December 2022 was $0.3 million (2021: $0.1 million), with no undrawn fee (2021: nil) as the full amount was drawn down. This amount was fully repaid on 22 March 2022.

- On 2 November 2022, RGBM and RIBM entered into an uncommitted revolving credit facility with its ultimate parent, PMHC and various subsidiaries of PMHC, intended for short-term liquidity management purposes. No drawdowns have been made.

- RGBM distributed $75.0 million to PLRH LLC by way of distributions in 2022.

## B.2 Fit and proper requirements – Board and Senior Executives

### Overview

In order for the Company to conduct its business activities and recruitment practices in accordance with the Pacific Life Group's guiding principles and high ethical standards, the Company has adopted the Division's Fitness and Propriety Policy.

Under this Policy, due diligence is carried out on all Board and senior executives before their appointment. Once appointed or employed, these individuals are subject to ongoing fitness and propriety checks.

### Determining an individual's skills, knowledge and expertise – Board assessment and senior executives

RGBM maintains procedures for ensuring that the Board and senior executives are 'fit and proper', which means ensuring that each individual is reputable, has previously demonstrated the appropriate competence and integrity in fulfilling occupational, managerial or professional responsibilities, and that he or she has no conflicts of interest which could affect the proper performance of their duties.

In addition to a robust interview process that is designed to assess competence and suitability for a role, Board and senior executives are subject to thorough background checks prior to carrying out services for the Company, including verifying academic and professional qualifications and memberships, verifying information on the CV for a period of ten years, checking any directorships or significant shareholdings of the applicant, and conducting any further checks which are necessary under regulatory requirements. The Company also repeats some of these checks on an annual basis.

### Description of the Professional qualifications and skills of the Board and Senior Executives

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|---|---|
| **David (Dave) Howell**<br><br>***Chief Executive Officer, Chair & Principal Representative (Director)*** | David is the CEO of the PL Re Division of the Pacific Life Group and has over 25 years' experience in life reinsurance. As part of this role, David is the CEO of the UK reinsurance entity, PLRL. He is a director of several PL Re Division companies and a former director of PLRA. David has been the CEO of the PL Re Division since 2006 after joining as deputy CEO in late 2005. Prior to joining PL Re, he was the Chief Pricing Officer for Swiss Re Life and Health based in Zurich and has previously held various roles within Swiss Re and M&G Re across Switzerland, the UK, and Canada.<br><br>David obtained his Bachelor of Mathematics Degree from the University of Waterloo in 1990 and became a Fellow of the Society of Actuaries in 1997. |

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| **Rhys Faulkner**<br><br>***Chief Actuary and Chief Pricing Officer (Director)*** | Rhys has been the Chief Actuary and Chief Pricing Officer since February 2020, having previously held the position of Head of Divisional Actuarial Reporting since early 2018. Rhys is responsible for overseeing Actuarial Reporting activities across the Division. He was previously the Chief Actuary (SMF20) for PLRL. He previously held a variety of roles within Actuarial Reporting at Pacific Life Re from 2009 to 2018 and before that, worked in the Pricing team, where he was responsible for pricing Protection and Longevity business. He began his career within Pensions Consultancy at Hewitt Bacon and Woodrow.<br><br>Rhys obtained his Mathematics and Management Science Degree from the University of Manchester Institute of Science and Technology in 2001 and became a Fellow of Institute and Faculty of Actuaries in 2008. |
| **Gary Falde**<br><br>***Non-executive Director*** | Gary had been Chief Actuary at PLIC since 2011, retiring in November 2021. However, he continues his directorships with various PL Re entities as a representative of PLIC, including the Company's reinsurance affiliate in the UK, PLRL. He joined Pacific Life in 1980 and spent nearly 25 years in the Life Insurance Division where he was promoted to Vice President, Planning and Finance in 1998. He served as Appointed Actuary from 2001 through to 2015, responsible for opining on the compliance and adequacy of the company's statutory reserves. He has focused substantial efforts on developing new US principle-based reserving standards through key leadership positions in the American Academy of Actuaries' Life Reserves Work Group. He also served in industry committee chair roles on principle-based reserving and life insurance captives for the American Council of Life Insurers.<br><br>Gary is a Member of the American Academy of Actuaries and Fellow of the Society of Actuaries. |
| **Robert (Bob) Diefenbacher**<br><br>***Executive Director*** | Bob has been Senior Vice President at PL Re since 2011 and is responsible for PL Re's North America retrocession business. Previously, he was Senior Vice President at Manulife Reinsurance and was responsible for sales, marketing, pricing, underwriting and administration functions for Manulife's individual life retrocession BU, which was sold to Pacific Life in 2011. He was Vice President, Head of Pricing at Employers Reinsurance for their US individual life reinsurance business from 1997 – 2004. Prior to that, he was an Actuarial Director at Sun Life of Canada, in the Individual Life Pricing and Product Development department.<br><br>Bob started at Paul Revere Insurance Group in 1988, where he became a Member of the American Academy of Actuaries and Fellow of the Society of Actuaries. |
| **Courtney (Court) Post**<br><br>***Chief Financial Officer (Officer only and no longer a Director)*** | Court rejoined PL Re on 1 June 2020 as Bermuda CFO and later took on the Division CFO role on 1 April 2022. In addition to his role as a director of RIBM, he is a director of RHBM, RSBM (as chair) and an officer with financial oversight responsibilities for RGBM. Previously, he was Vice President at RenaissanceRe in Bermuda from March 2019 – May 2020 and held the role of Director of Forecasting, Planning & Analysis. He spent 8 years with PL Re between 2011 – 2019, more recently as the Divisional Head of Financial Planning & Analysis in London, UK and earlier as AVP Financial Planning & Analysis in Toronto, Canada. Earlier in his career, Court held a variety of financial reporting roles at: The SalesForce Group in Toronto, Canada; Artex Risk Solutions (Bermuda) Limited in Bermuda; Middlefield Group in Toronto, Canada; Arthur J. Gallagher in Bermuda.<br><br>Court is a Chartered Professional Accountant ("CPA") and a member of CPA Canada. He is also the holder of a Chartered Financial Analyst ("CFA") designation and a member of the CFA Institute. |

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| **Kerri Michelle Moloney**<br><br>**Division Chief Risk Officer** | Michelle joined PL Re as the Division CRO in February 2021 from Protective Life Insurance Company where she had been the CRO. Prior to Protective Life, Michelle worked for Wells Fargo as SVP of Strategy and Regulation for their reinsurance division. Michelle is responsible for overseeing risk management activities across PL Re and leads PL Re's team of risk management professionals, and has line management responsibilities for the legal and compliance team. As Division CRO, she oversees second line risk management activities and the governance and validation of PL Re's economic capital models.<br><br>Michelle obtained a Joint Honors Bachelor of Mathematics from the University of Waterloo in 1992. She joined the Fellowship of the Society of Actuaries and Canadian Institute of Actuaries in 1997 and became a Chartered Financial Analyst in 1999. |
| **Amanda Sodergren**<br><br>***Independent Non-Executive Director & Board Audit Committee and Board Risk Committee Chair***<br><br>***(Lead Director)*** | Amanda joined the boards of RGBM and RIBM in September 2020. She brings with her over 30 years of experience in international insurance/reinsurance and banking with expertise in board governance, M&A, corporate restructuring and integration, enterprise risk management and global insurance regulation. She is an Independent Director of Equator Reinsurances Limited, where she serves as the Audit Committee Chair and a member of the Risk and Capital Committee. In 2019, she was appointed as an independent Director at OmegaCat Reinsurance Ltd and in 2017, as an Independent Director at AlphaCat Funds. In 2016, she was appointed to serve as an Independent Director and member of the Audit and Risk Committees of Hellenic Mutual War Risks Association (Bermuda) Limited and The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited. She joined PartnerRe Ltd in December 2000 as Associate General Counsel and from June 2004 to December 2012, she was Chief Legal Counsel and Chief Ethics Officer and, from January 2012 to December 2013, she continued serving at PartnerRe Limited as Consulting Counsel. From 2004 to 2012, she was a Director of Partner Reinsurance Company Limited.<br><br>Amanda is a Fellow of the Association of Corporate and Certified Accountants and has an LLB Honours from the University of London. |
| **Costas Miranthis**<br><br>***Independent Non-Executive Director*** | Costas joined the boards of RGBM and RIBM in September 2020. He has over 30 years of insurance/reinsurance experience. He is an Independent Non-Executive Director at Hiscox Dedicated Insurance Fund Plc, Hiscox Ltd, Argus Group Holdings Limited and Gatland Holdings Jersey Limited. He joined PartnerRe Limited in 2002 and held a variety of roles until he stepped down from his role as President and CEO in 2015. In 2007, he moved to Zurich to become CEO of PartnerRe Europe and deputy CEO of PartnerRe Global. The following year he was appointed CEO of PartnerRe Global, assuming responsibility for all the support functions of the Global BUs. In 2002 as Group Chief Actuarial Officer, he was tasked with setting up and overseeing the group actuarial function. He began his career at Tillinghast-Towers Perrin (now Willis Towers Watson).<br><br>Costas is a Fellow of the Institute of Actuaries and a Member of the American Academy of Actuaries. He has an MA Economics from the University of Cambridge. |
| **Kirstin Gould**<br><br>***Independent Non-Executive Director*** | Kirstin joined the Board of RGBM in September 2020. Formerly a General Counsel and C-Suite level executive, she has over 30 years of experience including broad international expertise in insurance and reinsurance, corporate governance, risk management, M&A, US securities law, insurance regulatory matters and compliance.<br><br>Kirstin is an Independent Non-Executive Director at James River Group Holdings Ltd, (NASDAQ:JRVR), a Bermuda-domiciled holding company that operates a |

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| | group of specialty insurance and reinsurance companies. She serves on the JRVR Nominating and Corporate Governance Committee.<br><br>Kirstin previously served as General Counsel and Corporate Secretary of XL Group from 2007 until 2018 when XL was sold to AXA. Kirstin joined XL in 2000 and served in various leadership roles during her tenure, including leading the marketing and communications function from 2007 - 2015 while concurrently serving as General Counsel from September 2007. From 2005 - 2012, Kirstin served as Policy Committee Chair of the Association of Insurers and Reinsurers (ABIR) which is a trade association of international property and casualty insurers and reinsurers. She is also the founder of Harrington Advisors LLC, a consulting company focused on strategic advice including M&A, corporate governance and insurance regulatory matters.<br><br>Kirstin began her career in private practice, first at Dewey Ballantine in New York and then Clifford Chance in New York and London. She earned her BA from SUNY Albany and her JD from SUNY Buffalo. |
| **Jay Orlandi**<br><br>***Non-Executive Director*** | Jay serves as Executive Vice President and General Counsel at Pacific Life where he oversees the Law, Compliance, Government & Policy Affairs and Corporate Secretary departments, as well as the Company's Corporate Social Responsibility, Crisis Management, and Enterprise Program Office functions. Jay is also a member of the Pacific Life Executive Committee, Management Committee, and Enterprise Risk Committee, and serves on the Boards of Directors of Pacific Life Insurance Company and Pacific LifeCorp.<br><br>Prior to joining Pacific Life at the end of 2020, Jay served as Executive Vice President and Chief Operating Officer at Transamerica where he was responsible for all business support functions, including law and compliance, communications and public affairs, human resources, corporate development, strategy, enterprise technology, data and analytics, information security, and marketing. Jay served for several years as Transamerica's General Counsel and Chief Legal Officer. He also served as the acting CEO for the company's Individual Solutions business including life and long-term care insurance, fixed and variable annuities, and mutual funds. He was a member of the Board of the Transamerica Venture Fund and Chaired the Boards of the Transamerica Foundation and the Transamerica Institute. |
| **Vibhu Sharma**<br><br>***Non-Executive Director*** | Vibhu is Executive Vice President and CFO of Pacific Life where he is responsible for the development and implementation of Pacific Life's corporate and financial strategies. He oversees the actuarial, corporate finance, internal audit, enterprise risk management, and business development functions. Vibhu serves on Pacific Life's management committee.<br><br>Vibhu joins Pacific Life from Thrivent where he served as Executive Vice President, CFO, and Treasurer. In this role, Vibhu was responsible for the finance and actuarial organizations, as well as ensuring the organization's financial strength and stability, and ability to deliver on financial promises. In addition, he co-led Thrivent's transformation efforts.<br><br>He previously served as Executive Vice President, CFO, and Treasurer of Mutual of Omaha and has held global leadership roles at Zurich Insurance and Collins Associates. Vibhu began his career at KPMG, rising to the role of partner while serving insurance companies in the U.S. and globally. |

*Figure 1 - Professional qualifications and skills of the Board and Senior Executives*

## B.3 Risk management and solvency self-assessment

### Risk Management Process

The Division Risk Management Framework describes the overall approach, principles and processes employed by the Company in relation to risk management. In particular, it describes the methods used for identifying, recording, mitigating and controlling, monitoring, and measuring/reporting on risks that arise in the course of business activities.

The Company operates a three lines of defence risk management model, where the first line comprises all departments other than the risk management and internal audit functions. Each department's role in the first line of defence is to prudently manage risks arising within its day-to-day activities. This includes the identification and assessment of risk and the design and implementation of appropriate controls. The majority of risk management activities are conducted by the first line of defence. The second line of defence comprises the risk management function, and the third line of defence is the internal audit function.

Risk identification for the Division is carried out through a variety of means. All material risks are recorded in the Division Risk Register. Various activities contribute to keep the risk assessments up to date. The Division Risk Management Committee ("DRMC") and BRC review the emerging risk reviews that are conducted periodically by the BU Risk Management Committees ("BURMC"). Economic Capital ("EC") assumptions, methodologies and results are also reviewed periodically.

The Company internally measures each quantifiable risk exposure by assessing the EC required to withstand a 1 in 200 level adverse event. The results of this assessment are captured in the CISSA process and reported to the BRC. Non quantifiable risks are measured qualitatively by considering their potential impact on the reputation or operations of the Company alongside the likelihood of occurrence. The measurement of risks takes into account both capital and liquidity impacts.

Risk reporting is carried out via Risk MI. The purpose of Risk MI is to enable management to assess the evolving nature of exposure to identified risks and to monitor the effectiveness of related controls.

Risk MI packs capture metrics within each risk category with predefined thresholds designed to provide early warning of emerging issues and to drive corrective actions. Risk MI packs are produced on a quarterly basis at BU level for review by BURMCs, at Division level for review by the DRMC and at legal entity level for review by BRC.

### Risk management and solvency self-assessment systems implementation

The Company's risk management framework is integrated into its operations, through the risk policies and procedures, risk reporting systems and related controls. Risk reporting systems include the Division Risk Register and Risk MI. DRMC owns the Division Risk Register and conducts an annual review to ascertain whether the appropriate risks are included, that their ratings are correct, and the appropriate level of attention is being devoted to the most material risks. The internal control framework considers the risks in all the key processes and ensures that they are understood, managed and reported in line with the risk management framework requirements. The risk management policies for the Company have been approved by the Board. Risk reporting specific to the Company is in development following the transfer of business to RIBM and will evolve over the next year.

The CISSA is performed by using an internal EC model. The EC model also underpins the annual business planning process. The Company's CISSA report documents the assessment of the solvency needs and is reviewed by the Board as part of the process. This assessment considers the needs over a five-year time horizon and includes a review of the solvency needs under a base scenario and also a range of scenarios that are relevant to the business. The solvency position and liquidity position are monitored by the DRMC and the Board on a quarterly basis on both an EC basis and the BSCR basis. The EC model is subject to strict model governance and change control process which is set out in the Division EC Model Governance and Change Policy. This Policy helps to ensure that the integrity of the EC model is not compromised by changes made to the models and that the model continues to produce reliable, accurate and relevant information.

The Internal Control Framework, in section B.4 considers the risks in all the key processes and ensures they are understood, managed and reported in line with the risk management framework requirements.

### Relationship between the solvency self-assessment, solvency needs & capital, and risk management

The Company's CISSA process captures the business plan and the quality and quantity of capital needed to support this plan over a five-year time horizon under base and stress scenarios. It also captures a description of the key risks the Company is facing and the plans to mitigate these risks.

The CISSA is performed on at least an annual basis. Interim CISSA will be carried out whenever there is a significant change in risk profile.

### Level of oversight and independent verification by the Board and Senior Execs

The Division CRO is responsible for ensuring that results and conclusions regarding each CISSA are communicated to relevant staff.

The CISSA is owned and produced by the CRO and Risk Management team which is the second line of defence. The Actuarial and Finance teams provide input into the process, and they form part of the first line of defence. There is periodic review of the process by Internal Audit who form the third line of defence. Where deemed necessary, inputs prepared by the first line are subject to internal review by someone within the team other than the person who carried out the work. The second line then carry out a review of the inputs before including them in the assessment.

The CISSA is reviewed by senior management, including the CFO and the Chief Actuary and Chief Pricing Officer before submission to the Board for review. BRC members carry out a review of the CISSA following senior management review.

Senior management take the results of the CISSA, and the insights gained from it, into account in the design and implementation of the system of governance, including capital management, business planning and product development and design. The Board takes the results of the CISSA into account in overseeing the Company's system of risk governance.

## B.4 Internal Controls

The Company has adopted the Division Operational Risk Policy in order to ensure a consistent internal control system across BUs. The Operational Risk Policy requires that internal controls are in place to mitigate the likelihood/severity of manifestation of operational risks related to all material processes and that such controls are adequately documented and operational. The Operational Risk Policy sets out:

- The responsibilities of each individual to whom a process has been allocated;
- The requirements for documenting controls;
- Requirements for ongoing accuracy and completeness of the process controls;
- The process for changing a control; and
- The process for reviewing controls.

The Pacific Life Group has established a Risk and Control Self-Assessment ("RCSA") framework for management of process related operational risks. This framework is underpinned by a bottom-up, internal control framework which captures all material business processes across the Division. Under the RCSA framework the processes within the internal control framework are periodically assessed using a risk based approach which considers the likelihood and impact of operational events (a) on the assumption that no controls are in place and (b) based on controls that are actually in place i.e. on both an inherent & residual risk basis. The RCSAs record controls that are relevant to each process and MI that is used as a Key Risk Indicator to monitor the risk.

### Compliance Function

The Company adheres to the Division's Compliance Function Policy, which lists the following objectives:

- to develop, implement and enforce policies, procedures and standards;
- inform and train employees about applicable legal, regulatory, policy, ethical requirements and standards;
- monitor and assess compliance processes, systems and controls;
- detect and respond appropriately to a violation of law, regulation, policy or ethical standard; and
- take appropriate steps to prevent the recurrence of any such violation.

The Company is engaged solely in reinsurance and retrocession business and is not therefore directly subject to material conduct of business regulation. Therefore, its compliance requirements are predominantly prudential insurance regulations and generally applicable legal and regulatory requirements.

The compliance function comprises all members of the Division's Legal Department, which has legal professionals assigned to each BU. Overall responsibility for the compliance function within PL Re rests with the Division General Counsel and, subject to oversight from the Division CRO, aspects of the compliance function are outsourced by RGBM to PLRS pursuant to an intra-group services agreement (see Section B.7 below).

The Division General Counsel is also a member of Pacific Life's Compliance Committee which comprises the Group Chief Compliance Officer and senior compliance officers from each of Pacific Life's divisions. Pacific Life's Compliance Committee oversees compliance activities across the wider Pacific Life Group.

The Division General Counsel has responsibility for the Bermuda entities' compliance function, including ultimate responsibility for compliance in RIBM and RGBM and in respect of operations in Bermuda. The Division Centre legal team support the Division General Counsel in discharging this responsibility. Further, the lawyers responsible for overseeing compliance in PLRL and PLRA report to the Division General Counsel.

## B.5 Internal Audit

Overall responsibility for the internal audit function rests with the PL Re Division Head of Internal Audit, who, in order to maintain independence has a reporting line to Pacific Life's Head of Internal Audit. Internal audit provides independent, risk-based and objective assurance, advice, and insight regarding the effectiveness and efficiency of risk management, control, and governance processes to enhance and protect organisational value. An annual audit plan is reviewed and approved by the Audit Committee. The Head of Internal Audit is invited to present reports, including an overall judgement of the function's activities, at the Audit Committee. Where relevant, non-financial matters will be reported to the Board Risk Committee or Board.

## B.6 Actuarial Function

Overall responsibility for the actuarial function rests with the Chief Actuary and Chief Pricing Officer. The actuarial function is responsible for:

- the calculation of technical provisions, including assessing the adequacy of methodologies and assumptions and quality of the underlying data;
- assisting in the execution of the risk management framework, particularly as it relates to modelling policyholder liabilities and capital requirements;
- assisting the pricing and product design process, and inputting to the design of risk transfer mechanisms where appropriate (e.g. retrocession); and
- providing input and challenge on the appropriateness of assumptions, based on analysis of past experience against expectations and expectations of future experience.

The Approved Actuary ("AA") of the Company is Kelvin Lam of Deloitte. The AA is responsible for opining on the reasonableness of the technical provisions.

## B.7 Outsourcing

### Description of the outsourcing policy and information on any key or important functions that have been outsourced

The Company has adopted the Division's Third Party Risk Management Policy, the purpose of which is to ensure that:

- decisions regarding outsourcing are made in an appropriate and consistent manner;
- outsourcing arrangements are appropriately documented, managed and controlled; and
- relevant approvals and/or notifications are sought internally and from relevant regulators.

The Policy sets out the review and authorisation process that must be undertaken for third party and outsourcing agreements. This process includes carrying out a risk assessment and due diligence on prospective service providers (including intra-group), in addition to periodic reviews and assessments to manage existing service arrangements. Any outsourcing by the Company is carried out in accordance with the provisions of the Insurance Act 1978 and the Insurance Code of Conduct.

The Division's philosophy in relation to outsourcing outside the Pacific Life Group is only to outsource non-core functions, and only where this can provide better value for money or enhanced service. Intra-group outsourcing is chosen over external outsourcing where this is possible and provides better economy of scale for the Pacific Life Group and/or the Division.

### Material intra-group outsourcing

A summary of RGBM's material intra-group outsourcing arrangements are set out in the table below:

| Group Supplier | Description of material outsourcing | Jurisdiction |
|---|---|---|
| Pacific Life Services Bermuda Limited (RSBM) | Intra-group agreement with RSBM for the provision of staff and general office services in Bermuda, executives, finance and treasury, risk and internal audit support, actuarial oversight and IT network services. | Bermuda |
| Pacific Life Re Services Limited (PLRS) | Intra-group agreement with PLRS for the provision of certain Division support services including IT network services, finance and treasury, actuarial reporting support, legal, compliance and risk. | UK |
| Pacific Services Canada Limited (PSCL) | Intra-group agreement with PSCL for the provision of (i) services including finance and treasury, actuarial reporting support and operations and (ii) certain Division support services including finance and treasury, and actuarial reporting support. | Canada |
| Pacific Life Insurance Company (PLIC) | Intra-group agreement with PLIC for the provision of investment management services, IT, Information Security and Internal Audit. (via PLRS) | USA (Nebraska) |

*Figure 2 - The material outsourcing of RGBM.*

### Asset liability management, investment policy and liquidity management function

The Division Investment Committee ("DIV-IC") is responsible for oversight and management of credit, market and liquidity risk across the Division and for monitoring the performance and management of the Division's investments and portfolios. There is no consolidated Division investment strategy document but rather each investment portfolio has its own objectives which are defined in the relevant investment guidelines presented to the relevant investment manager.

A number of BU Investment Committees ("BUIC") are responsible for monitoring the quality and performance of investments made in respect of localised assets (save for those relating to GFS), including the implementation of and compliance with relevant investment guidelines (including by any external investment managers appointed from time to time). The portfolios backing the GFS product line are created and managed in accordance with the Division's appetite for Credit, Liquidity and Market Risk as well as an asset strategy with parameters agreed with Pacific Life's Enterprise Risk Committee ("ERC"). The GFS Assets and Liabilities Committee ("GFS ALCO") is responsible for monitoring the performance of these portfolios against these parameters and has oversight of any risks arising in the management of the portfolios.

These BUICs and GFS ALCO are then subject to oversight from the Division Investment Committee.

## B.8 Any other material information

The material aspects of the Company's system of governance are summarised in sections B.1 to B.8 above.

# C Risk profile

# C. Risk Profile

As at 31 December 2022, the Company's in-force portfolio consisted of protection reinsurance and retrocession business and longevity reinsurance business. The protection business consists of mortality and morbidity risks written in North America, UK and Ireland, and the Singapore and Korea branches and some mortality business written in the Canada PLRL branch, as well as protection reinsurance of both retail insurance products and insurance provided through large pension funds (group insurance) written in Australia. The longevity business comprises both longevity swap and asset backed longevity risk transfer business, mainly in the UK. PLRL's UK and Singapore businesses were transferred to RIBM on 1 January 2022 as part of the Corporate Restructure and subsequently PLRL's Korea and Canada business were transferred to RIBM on 1 January 2023.

In line with the Company's Risk Strategy, this primarily results in preferred insurance risks (longevity, mortality and morbidity) being written. Insurance business is subject to management risk appetites and limits set out in the Division Insurance Risk Policy.

## C.1 Material risks that the insurer is exposed to

Risks are measured using both the BSCR regulatory basis, and an EC basis whenever quantifiable.

The Company is exposed to a number of material risk categories:

- Insurance risk: includes longevity, mortality, morbidity;
- Market risk: includes interest rate, currency, credit spreads;
- Credit risk: includes counterparty;
- Operational risk: includes strategic, reputation, IT including cyber, regulatory, legal;
- Liquidity risk; and
- Group risk

The table below sets the description of each risk as well as the key provisions in the related Risk Management Policy to prudently manage these risks.

| Risk | Risk Policy Provisions to Manage Risks |
|---|---|
| **Insurance Risk**<br>The risk of financial loss arising from fluctuations in the timing, frequency and severity of insured events, including the rate at which in-force business lapses<br>Key Insurance risk includes:<br>Longevity<br>Mortality<br>Morbidity<br>Disability<br>Persistency | Insurance Risk Policy contains methods for identifying, assessing, monitoring and controlling.<br><br>Key provisions include:<br>a) Insurance risk appetite limits which limit exposure to individual events by setting maximum limits per life in reinsurance treaties and setting up retrocession arrangements to manage the risk of cessions on the same lives from different sources. These include:<br>i) Retention limits by territory and legal entity<br>ii) Minimum Target Pricing Returns<br>iii) Geographic concentration limits<br>iv) Longevity aggregate capacity limit<br>b) Risk assessment (new business treaty reviews)<br>c) Valuation - BU R&D teams carry out internal experience analyses<br>d) Monitoring - The Division and BU Risk Management Committees are responsible for monitoring exposure to insurance risks and the effectiveness of insurance risk controls. Risk MI is reviewed on a quarterly basis by the Risk Management Committees. |
| **Market Risk** | Market Risk Policy contains methods for identifying, assessing, monitoring and controlling. Key provisions include: |

| | |
|---|---|
| The risk of loss or adverse fluctuation in the value of PL Re's liabilities and invested assets as a result of movements in interest rates, inflation rates or exchange rates. Key risks include: Interest rate<br>Exchange rate, credit spread | a) Investment guidelines<br>b) Minimise exposure to both interest rate, inflation rates and exchange rate fluctuation through its asset/liability matching management processes which are documented within the respective BU investment guidelines<br>c) Investment Committee oversight<br>d) Valuation procedures and target duration for liabilities<br>e) New business market risk assessment<br>f) Monitoring - asset/liability matching by duration and currency |
| **Credit Risk**<br>The risk of financial loss arising from the failure of another party to perform its financial obligations to the firm, including failing to perform them in a timely manner | Credit Risk Policy contains methods for identifying, assessing, monitoring and controlling. Key provisions include:<br>a) Counterparty limits by BU and rating<br>b) Collateral and reset arrangements -the Company require specific terms<br>c) Investment guidelines<br>d) Letters of Credit<br>e) Internal retrocession<br>f) Legal entity credit rating<br>g) Annual assessment of exposure to individual counterparties<br>h) Monitoring – exposure limits, quarterly monitoring |
| **Operational Risk**<br>The risk of loss resulting from inadequate or failed internal processes and controls, people, systems, or external events including legal and compliance risk. Losses include financial loss, reputational damage or business interruption. Key operational risks include:<br>Reputation<br>Model Risk<br>IT<br>Cyber<br>Continuity<br>Legal<br>Third Party & Outsourcing | Operational Risk Framework contains methods for identifying, assessing, monitoring and controlling.<br>Key provisions include:<br>a) Risk and control self-assessments<br>b) Operational event reporting<br>c) Monitoring via operational Risk MI<br>d) Legal – appropriate contractual terms<br>e) Control frameworks and associated policies for IT, third parties and outsourcing, financial reporting, model risk & assumptions, and incident & business continuity.<br>f) Oversight/monitoring is provided by committees and Board including the Division Risk Management Committee (DRMC) who reports on operational and model risk matters to PL Enterprise Operational Risk Committee, Risk Management Committees, and entity Board. |
| **Liquidity Risk**<br>The risk of financial distress as a result of a sudden increase in the need for liquid assets to meet contractual obligations. Ultimately liquidity risk could result in insolvency from having insufficient liquid resources to meet obligations as they fall due. | Liquidity Risk Policy contains methods for identifying, assessing, monitoring and controlling. Key provisions include:<br>a) Liquidity risk strategy to hold sufficient liquid assets to cover payment obligations under stressed scenarios which are evaluated annually. The maintenance of a buffer of available liquid assets over stressed payment obligations mitigates liquidity risk in lieu of holding additional capital.<br>b) Weekly monitoring of cash requirements with consideration of likely short-term outflows. |

| **Group Risk**<br>The risk of loss arising from membership of the Pacific Life group. This risk may manifest itself through default on intragroup retrocession, failure to provide agreed services, or a negative impact on the creditworthiness of PL Re carriers. | Group Risk Policy contains methods for identifying, assessing, monitoring and controlling. Key provisions include:<br>a) Maintaining an appropriate level of capital remaining in the entity post default on all intragroup retrocession and arrangements<br>b) Clear documentation of all intragroup outsourcing<br>c) Annual group risk assessment<br>d) Monitoring via Risk MI |
|---|---|

*Figure 3 - Summary of material risks and mitigants.*

## C.2 Mitigation of risk – methods used and the process to monitor the effectiveness

See section C.1 above.

## C.3 Material risk concentration

There are no significant exposures to concentration risk within the Company; all material risks were within risk appetite during the year.

## C.4 Asset investments – prudent person principle

The Company's market risk strategy is guided by the "prudent person" principle as specified in paragraph 5.1.2 of the BMA Insurance Code of Conduct, in that the Company only invests in assets and instruments where the risks of which can properly be identified, measured, monitored, managed and controlled. Exposures to counterparty concentrations are managed through defined limits and ratings.

The Company invests its portfolio of assets according to prudent person principle restrictions identified in its investment guidelines which are designed to promote the liquidity, security and quality of the portfolio and returns of such assets are assessed in relation to their risk via the associated capital charges.

The only permitted investments are investment grade fixed income securities, short-term deposits and units in fixed income funds. Acquisition of equities, property, commodities, derivatives, alternative asset classes (such as hedge funds) and non-investment grade securities are expressly excluded.

## C.5 Outcome of stress testing and sensitivity testing results

The Company conducts regular stress and scenario tests. The stresses and scenarios carried out as part of the CISSA process covering the most material insurance and market risks. The stresses are carried out looking at the impact of a move in one or a small number of risk factors over a one-year time horizon.

The stresses and scenarios include:

- Cancer Cure scenario – the solvency position is tested for cancer cure through a deterministic scenario based on cure for all cancers. Testing of the scenario indicated that the exposure is modest.
- Pandemic plus market risk scenario – the solvency position is tested for a pandemic resulting in a spike in mortality claims and the offsetting impact on longevity business calibrated as a 1-in-200 stress. Testing of the scenario indicates that the overall impact is modest.
- Combined mortality and morbidity stress – the solvency position is tested for a 5% increase in the mortality and morbidity rates. Testing of the scenario indicates that the overall impact is modest.
- Asia CI claims deterioration – this scenario shows the impact on RGBM of adverse critical illness claims in Asia. Testing of the scenario indicates that the overall impact is modest.
- A range of market sensitivities and scenarios considering movements in interest rates, credit spreads and inflation.

In all stress and scenario tests, the capital ratio on a BMA basis is at or above the applicable target operating range.

## C.6 Any other material information

The material risks outlined in C.1 will remain the same, however the magnitude of the risks may change. Future development of the GFS line of business is expected to grow and with it the associated credit and market risks.

Management have continued to monitor the development of the pandemic on staff, operations, business planning and claims as globally this transits to an endemic. The total impact of COVID-19 claims is within the total mortality shock stress capital.

At the time of writing, there continues to be clear humanitarian concerns in relation to the military conflict between Russia and Ukraine. Management have assessed our financial, insurance, and operational risk positions. This will remain an area of continued monitoring as the situation develops over time. Management have reviewed the investment portfolios for exposure to assets that might be impacted by ongoing instability in Ukraine. None of the investments held by the Company have direct exposure to any Russian or Ukrainian issuers. The Company has no direct insurance exposure to Russia or Ukraine. Operational considerations include our SAP data centres in Poland. Management have undertaken business impact assessments in relation to these data centres and business continuity plans are in place. Disaster recovery testing was completed successfully in 2022.

# D Valuation for Solvency Purposes

# D. Valuation for Solvency Purposes

The bases, methods and main assumptions used for the valuation of the Company's assets, technical provisions and other liabilities are consistent with the BMA rules.

Valuation policies have been chosen to reflect quoted prices and, where these are not available, other data from active markets for the same or similar items has been used. In the absence of either quoted prices or other data from an active market, other valuation techniques are applied to the assets and other liabilities.

Section D contains the Company's consolidated financial information, unless stated otherwise.

## D.1 Bases, methods and main assumptions used for the valuation for solvency purposes for each material class of asset

The table below shows the EBS value of each material class of asset for the Company as at 31 December 2022 and 2021. In the sections following the table, further details are provided for the material EBS classes of asset.

| | EBS 2022 $'000 | EBS 2021 $'000 |
|---|---|---|
| Cash And Cash Equivalents | 509,478 | 513,459 |
| Investments | 2,550,338 | 3,569,499 |
| Investment Income Due And Accrued | 22,189 | 24,341 |
| Accounts And Premiums Receivable | 616,049 | 669,481 |
| Reinsurance Balances Receivable | 74,791 | 122,522 |
| Deferred Tax Asset | 90,617 | - |
| Other Assets | 44,042 | 31,829 |
| **Total Assets** | **3,907,504** | **4,931,131** |

*Figure 4 - Summary of assets.*

### Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

The EBS measurement basis for cash and cash equivalents is fair value in line with US GAAP, which is approximated by amortised cost. This is a reasonable approximation due to the short-term nature of cash and cash equivalents and due to the low risk of counterparty default based on counterparty credit ratings.

### Investments

The EBS measurement basis for financial investments is fair value, on initial recognition and subsequently, with changes in fair value recognised in other comprehensive income. This measurement basis is consistent with the Company's investment and risk management strategy to manage its financial investments on a fair value basis. All RGBM's unconsolidated investments are pledged as collateral security.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, measured at their fair values.

As at the end of the period all financial investments were modelled with significant observable market inputs.

### Investment income due and accrued

This relates to investment income earned but not received on the financial investments.

The EBS measurement basis is fair value.

## Accounts and premiums receivable

Accounts and premium receivable relate to assumed business and consist of premium and other receivables.

The EBS measurement basis for accounts and premium receivables is fair value, which is approximated by amortised cost. This is a reasonable approximation due to the short-term nature of insurance and intermediaries' receivables and due to the low risk of counterparty default based on low historic default experience and on counterparty credit ratings.

## Reinsurance balances receivable

Reinsurance balances receivables relate to outwards business (including affiliates) and consist of collateral balances receivable.

The EBS measurement basis for reinsurance receivables is fair value, which is approximated by amortised cost. This is a reasonable approximation due to the short- term nature of reinsurance receivables and due to the low risk of counterparty default based on counterparty credit ratings.

## Other assets

**Deferred acquisition costs, value of business acquired and prepayments**

The EBS measurement basis for deferred acquisition costs is nil as it is implicitly included in the premium provisions valuation. The EBS measurement basis for value of business acquired is nil. The EBS measurement basis for prepayments is nil as they cannot be utilised to pay policyholders.

**Sundry assets**

Sundry assets relate to receivables on the balance sheet which are not attributable to (re)insurance operations.

The EBS measurement basis for sundry assets is fair value, which is approximated by amortised cost. This is a reasonable approximation due to the short-term nature of receivables (all are due within 12 months) and due to the low risk of counterparty default.

**Property, plant and equipment**

Property, plant and equipment held for own use consists of computer equipment, fixtures and fittings and leasehold improvements.

The EBS measurement basis for property, plant and equipment held for own use is fair value, which is approximated by cost less accumulated depreciation and impairment where it has been demonstrated that the difference between fair value and cost is not material.

Based on the materiality threshold, an assessment will be performed at each balance sheet date to determine whether adjustments are necessary to bring the carrying value of property, plant and equipment held for own use under US GAAP to fair value under EBS.

**Funds Held by Ceding Reinsurers**

Funds Held by Ceding Reinsurers relate to inwards business for the protection (consists of premiums held by cedant in order to cover future claims) and longevity reinsurance business (consist of collateral balances in favour of cedants).

The EBS measurement basis for deposits with cedants is fair value, which is approximated by amortised cost. This is a reasonable approximation due to the short-term nature of the deposits with cedants asset and due to the low risk of counterparty default as a consequence of an offsetting liability with the same counterparty.

## D.2 Bases, assumptions and methods used to derive the value of technical provisions and the amount of the best estimate.

In the sections following the table, further details are provided in relation to the assumptions and methodology for the best estimate liability ("BEL") and risk margin components of technical provisions calculated in line with the EBS valuation principles, as defined in the BMA's Group Prudential Standards and Guidance Note for Commercial Insurers and Groups (dated 30 November 2016).

| | EBS 2022 | EBS 2021 |
|---|---|---|
| | $'000 | $'000 |
| Gross long-term business insurance provisions | (600,661) | (2,143,954) |
| Less: Reinsurance Recoverables | 1,577,786 | 2,550,884 |
| Risk margin | 424,712 | 506,978 |
| **Total long-term insurance business technical provisions** | **1,401,838** | **913,908** |

*Figure 5 - Summary of technical provisions*

### Methodology applied in deriving the technical provisions

The value of technical provisions is equal to the sum of a BEL and a risk margin.

### Technical provisions valuation methodology

The BEL is the probability-weighted average of future cash outflows, taking into account the time value of money using the relevant term dependent discount rate. The calculation of the best estimate is based on up-to-date and credible information and on realistic assumptions, and it is performed using adequate, applicable, and relevant actuarial and statistical methods. The cash flow projection used in the calculation of the BEL includes all cash inflows and outflows required to settle the insurance and reinsurance obligations over the lifetime thereof. The best estimate is calculated gross of the amounts recoverable from reinsurance contracts, which are calculated separately.

The risk margin is calculated so as to ensure that the value of technical provisions is equal to the amount that insurance and reinsurance undertakings would be expected to require in order to acquire and meet the insurance and reinsurance obligations. It is based on the principle of allowing for the cost of holding capital to support risks which cannot be readily hedged.

The risk margin is calculated as the present value of the projected BSCR for non-hedgeable risks (insurance risks, operational risk, expense risk and counterparty default risk) multiplied by the assumed cost of capital rate. This is calculated on a total company basis, allowing for diversification between lines of business.

## Key assumptions in deriving the technical provisions

This section covers key assumptions used to derive the BEL component of the technical provisions of the Company.

### Relevant term dependent discount rate applied in deriving the technical provisions

Technical provisions for the majority of the business (excluding GFS which is covered below) are discounted using currency-specific risk-free discount rate term structures with an appropriate illiquidity adjustment, as published by the BMA. For currencies where the BMA does not publish discount rates, risk-free discount rates as published by EIOPA are used.

For GFS business that is written directly into RIBM, a Scenario Based Approach is used for discounting cash flows in the valuation of technical provisions. Under this approach, the BMA prescribes eight interest rate scenarios intended to adjust for any mismatch between asset and liability cash flows. For the remaining GFS business that is written in the RIBM UK Branch (and 100% retroceded to PLIC), the standard discounting approach (as described above) applies.

Note that for the purposes of calculating the risk margin, whilst pre-diversified capital amounts are calculated using the risk-free discount rate term structures with an appropriate illiquidity adjustment, the cost of capital amounts are discounted using the risk-free discount rates without illiquidity adjustment.

### Policy expenses

Maintenance expense loadings are typically based on the expense assumptions adopted as part of the annual business planning process.

### Investment-related expenses

Investment-related expenses largely comprise investment management fees but also include other expenses such as custodian fees and accounting fees. The expected expense cash flows are projected into the future and are discounted to the reference date. The expenses reflect the expected fees associated with holding an asset portfolio sufficient to meet the liabilities and capital requirements.

### Other non-economic assumptions

For the purpose of calculating technical provisions, assumptions are used for lapses, mortality and morbidity. The best estimate assumptions for treaties are based on the assumptions used when the business was originally priced, adjusted for experience emerging over time. Pricing assumptions are based on the Terms of Trade assumptions, adjusted for treaty specific experience. Assumptions are treaty specific and reflect treaty specific experience.

Experience analyses are generally carried out annually for treaties where sufficient volumes of data are available.

### Contract boundaries

The boundary for contracts is determined in accordance with BMA's Group Prudential Standards, suitably adjusted to reflect practical considerations where appropriate. No cash flows after the contract boundary are included in the valuation of technical provisions or the ECR. Where the Company's business is retroceded from affiliate companies, the contract boundary will reflect the arrangement between the affiliate company and their cedant.

### Uncertainty associated with the value of technical provisions

Cash flow projections are performed on a deterministic as opposed to a stochastic basis, but the BEL is uplifted to account for a probability-weighted average of future cash flow projections. The assumptions underlying the deterministic cash flows reflect the Company management's best estimate of future experience, reflecting the underlying data as well as the judgment of management. These estimates therefore include an inherent level of uncertainty.

## D.3 Recoverables from reinsurance contracts

The Company retrocedes a portion of its business to external parties as well as an affiliate.

The calculation of the reinsurance recoverable asset is consistent with the calculation of BEL described in section D.2. If deemed material, an adjustment is also made for expected losses due to default of the counterparty, which is based on an assessment of the probability of default of the counterparty and of the average loss resulting therefrom.

## D.4 Bases, methods and main assumptions used for the valuation for solvency purposes for each material class of other liabilities.

The table below shows the EBS value of each material class of liabilities for the Company as at 31 December 2022 and 2021. In the sections following the table, further details are provided for the material EBS classes of other liabilities.

| | EBS 2022 | EBS 2021 |
|---|---|---|
| | $'000 | $'000 |
| Insurance and reinsurance balances payable | 190,134 | 247,029 |
| Commission, expenses, fees and taxes payable | 78,334 | 140,310 |
| Loan and notes payable | 114,459 | 130,408 |
| Tax liabilities | 273,825 | 421,691 |
| Amounts due to affiliates | 4,217 | 273,750 |
| Accounts payable and accrued liabilities | 10,088 | 9,041 |
| Funds held under reinsurance contracts | 239,793 | 335,316 |
| Sundry liabilities | 14,276 | 20,130 |
| **Total other liabilities** | **925,127** | **1,577,675** |

*Figure 6 - Summary of other liabilities*

### Insurance and reinsurance balances payables

Insurance and reinsurance payables relate to:

- Assumed business past due at the balance sheet date and consist of deposits and advances from cedants.
- Reinsurance payables relate to ceded business past due and consist of amounts payable to cedents and retrocessionaires.

The EBS measurement basis for insurance and reinsurance payables is fair value, which is approximated by amortised cost. This is a reasonable approximation due to the short-term nature of insurance and intermediaries' payables.

### Commission, expenses, fees and taxes payable

The majority of the balance relates to commission payable on assumed business past due at the balance sheet date.

The EBS measurement basis for commission, expenses, fee and tax payables is fair value, which is approximated by amortised cost. This is a reasonable approximation due to the short-term nature of insurance and intermediaries' payables.

## Loan and notes payable

Loans and notes payable relate to debts, such as mortgage and loans, owed to credit institutions, and bank overdrafts, but excludes subordinated liabilities. Debts owed to credit institutions consist of principal and interest payable.

The EBS measurement basis for loans and notes payable is fair value, which is approximated by amortised cost.

## Tax liabilities

Current tax liabilities are measured at the amounts expected to be paid to the tax authorities using the tax rates that have been enacted or substantively enacted by the end of the reporting period.
The EBS measurement basis for current tax liabilities is fair value, which is approximated by amortised cost. This is a reasonable approximation due to the short-term nature of the liabilities.
Deferred tax assets and liabilities are recognised in relation to the difference between the EBS value of assets and liabilities and the amount of those assets and liabilities for tax purposes. Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, in respect of all temporary differences that have originated but not reversed at the reporting date, with the exception that deferred tax assets are recognised only to the extent that management considers that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

## Amounts due to affiliates

These relate to non-(re)insurance payables, including loan and notes payable, and consist of intra-group payables with Pacific Life group companies outside of the Company.

The EBS measurement basis for amounts due to affiliates is fair value, which is approximated by amortised cost. This is a reasonable approximation due to the short-term nature of the liabilities.

## Accounts payable and accrued liabilities

These relate to non-(re)insurance payables and consist of trade payables.

The EBS measurement basis for accounts payable and accrued liabilities is fair value, which is approximated by amortised cost. This is a reasonable approximation due to the short-term nature of the liabilities.

## Funds held under reinsurance contracts

These relate to outwards business and consist of collateral balances from retrocessionaires.

The EBS measurement basis for funds held under reinsurance is fair value, which is approximated by amortised cost using the effective interest method. This is a reasonable approximation due to the short-term nature of deposits from reinsurers.

## Sundry liabilities

These relate to deposit accounting payable balances with non-group companies.

The EBS measurement basis for funds held under reinsurance is fair value, which is approximated by amortised cost using the effective interest method. This is a reasonable approximation due to the short-term nature of these balances.

### Any other liabilities, not shown elsewhere

Material contingent liabilities are included in the EBS at fair value on a probability weighted cash flow basis. This method recognises the expected present value of future cash flows required to settle the contingent liability over the lifetime, using the basic risk-free interest rate term structure.

There are no contingent liabilities as at the end of the period.

## D.5 Any other material information

For the year ended 31 December 2022, there is no other material information regarding solvency valuation required to be disclosed for purposes of this FCR.

# E Capital Management

# E. Capital Management

### Overview

The Company's objectives in managing capital are:

- To maintain financial strength and allocate capital efficiently to support new business growth;
- To satisfy the requirements of policyholders, shareholders, regulators and rating agencies; and
- To ensure that assets held are of appropriate quality.

## E.1 Eligible Capital

### Capital Management Policy

The Company has an overarching capital management process to ensure an appropriate level and form of capital is held. The Company's capital 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.

The Company is required to hold sufficient capital to meet BMA regulatory requirements. The Company holds sufficient capital to meet its minimum regulatory requirement as defined under the Insurance Act. The Company's Capital Management Policy ("CMP") states that the Company will hold capital sufficient to meet the higher of EC requirements and the minimum BSCR, including an additional solvency buffer. The buffer is held to ensure that minimum regulatory requirements continue to be met in most normal circumstances. The buffers have been approved by the Board.

A regulatory solvency ratio, which is the ratio of eligible capital resources to BSCR, is used to report the Company's solvency position to the BMA on a quarterly basis, in accordance with the BMA regime. There are appropriate levels of oversight from the specialist teams and the Board to ensure appropriate capital levels are managed and maintained. In particular:

- The Solvency ratio for the Company is monitored on a regular basis using three levels of triggers to determine when additional capital or other action is required.
- The Company's medium-term capital management plan for five years is set out in the annual CISSA. This enables the Board to understand the likely future solvency position and capital needs of the Company. The plan includes:
  - A projection of the regulatory and EC solvency position over at least the next 5 years, including the impact of sensitivities; and
  - Discussion of the sources and quality of capital.

Remedial actions will be considered if any of the solvency monitoring triggers are breached. The main considerations are listed below

- Capital injection from PLC;
- Increased external retrocession;
- Review investment strategy; and
- Reduction to new business volumes, closure to new business or seeking cedant recapture of existing treaties.

The action to be taken will depend on which trigger(s) has been breached, the extent of the shortfall and the anticipated development of the solvency position over the subsequent months.

## Eligible capital categorised by tiers

The Company's available capital comprises the sum of Tier 1 and Tier 2 capital.

| Capital Tier's | EBS 2022 $'000 | EBS 2021 $'000 |
|---|---|---|
| Tier 1 available capital | 962,923 | 1,696,353 |
| Tier 2 available capital | 617,616 | 743,195 |
| **Total available capital** | **1,580,539** | **2,439,548** |

*Figure 7 - Summary of available capital.*

Tier 1 available capital

The table below shows the Company's Tier 1 available capital.

| Tier 1 Classes | EBS 2022 $'000 | EBS 2021 $'000 |
|---|---|---|
| Fully paid common shares | 1,250 | 1,250 |
| Contributed surplus or share premium | 1,465,604 | 1,540,604 |
| Statutory economic surplus | 113,685 | 897,694 |
| Excess encumbered assets transferred to Tier 2 | (617,616) | (743,195) |
| **Total Tier 1 available capital** | **962,923** | **1,696,353** |

*Figure 8 - Summary of Tier 1 available capital.*

**Fully paid common shares**

RGBM's share capital is fully paid up as at the end of the period.

**Contributed surplus or share premium**

This relates to additional paid-in capital arising from the contribution of PLRA ($233.9 million) and PLRH ($977.6 million), as well as capital funding contributions. RGBM distributed $75 million to PLRH LLC in 2022.

**Statutory economic surplus**

Statutory economic surplus comprises retained earnings, the foreign currency translation reserve and other reserves.

**Excess encumbered assets transferred to Tier 2**

The transfer from Tier 1 to Tier 2 capital is to reflect any excess of encumbered assets.

There is an assessment to determine if there was any excess of encumbered assets over the policyholder obligations, capital requirement for encumbered assets and capital requirement for the policyholder obligations. Any excess would be included in a calculation to determine a transfer from Tier 1 to Tier 2.

Tier 2 available capital

This relates to the excess encumbered assets transferred from Tier 1.

Tier 3 available capital

RGBM has no Tier 3 capital during the year ended 31 December 2022 (2021: nil).

## Eligible capital used to meet Enhanced Capital Requirements and the Minimum Margin of Solvency

The available capital to cover the ECR is subject to quantitative limits. The following table shows the eligible capital to cover ECR and MSM. The full available capital is eligible to meet the ECR as the Tier 1 capital is greater than 50% of the total available capital. Only $229.7 million, being 25% of the Tier 1 capital, is eligible Tier 2 capital to meet the MSM.

| | 2022 | | | | |
|---|---|---|---|---|---|
| **Eligible Capital $'000** | **Limits** | **MSM** | **ECR** | **Applied to MSM** | **Applied to ECR** |
| Tier 1 capital | Min | 80% | 50% | 919,023 | 962,923 |
| Tier 2 capital | Max | 25% | 50% | 229,756 | 617,616 |
| **Total** | | | | **1,148,779** | **1,580,539** |

| | 2021 | | | | |
|---|---|---|---|---|---|
| **Eligible Capital $'000** | **Limits** | **MSM** | **ECR** | **Applied to MSM** | **Applied to ECR** |
| Tier 1 capital | Min | 80% | 50% | 1,696,353 | 1,696,353 |
| Tier 2 capital | Max | 25% | 50% | 424,088 | 743,195 |
| **Total** | | | | **2,120,441** | **2,439,548** |

*Figure 9 - Summary of eligible capital.*

## Eligible capital to cover the transitional arrangements

The Company has adopted the transitional approach to capital requirements, phasing in the impact of moving between the previous and revised methodology following the revision of the BSCR by the BMA in 2019.

## Identification of any factors affecting encumbrances affecting the availability and transferability of capital to meet the ECR

There is a transfer of Tier 1 to Tier 2 capital for any excess of encumbered assets. There is enough capital for the Company to meet the ECR requirements.

## Identification of any ancillary capital instruments that have been approved by the authority

None.

## Identification of differences in shareholders equity as stated in the financial statements versus available statutory capital and surplus

The starting point to determine available statutory capital and surplus is to prepare the Company's consolidated balance sheet on an EBS basis. The EBS is derived from the US GAAP balance sheet by making adjustments to reflect the EBS basis of assets and liabilities. This EBS then provides the available capital and surplus which is then categorised into the three available capital tiers.

The US GAAP Consolidated Total Shareholders' Equity and the solvency valuation of the excess of the assets over the liabilities is set out below. The adjustments are documented in Section D covering valuation of assets and liabilities.

| US GAAP Shareholder' Equity to EBS Available Statutory Capital and Surplus | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|
| **US GAAP Consolidated Total Shareholders' Equity** | **783,059** | **1,459,105** |
| Less: Prepayments measured at $nil for EBS | (7,119) | (12,382) |
| Less: Deferred acquisition costs measured at $nil for EBS | (887,543) | (890,915) |
| Less: Value of business acquired measured at $nil for EBS | (5,718) | (7,157) |
| Net technical provisions measurement differences for EBS | 1,953,772 | 2,234,199 |
| Current and deferred taxes | (260,018) | (341,433) |
| Other | 4,086 | (1,869) |
| **EBS Available Statutory Capital and Surplus** | **1,580,518** | **2,439,549** |

*Figure 10 - Analysis of change from US GAAP Shareholders' Equity to EBS Available Statutory Capital and Surplus.*

## E.2 Regulatory Capital Requirements

### Identification of the amount of the ECR and the Minimum Margin of Solvency at the end of the reporting period

| | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|
| Eligible Capital for ECR | 1,580,539 | 2,439,548 |
| ECR | 714,887 | 811,280 |
| **ECR Ratio** | **221%** | **301%** |
| Eligible Capital for MSM | 1,148,779 | 2,120,441 |
| MSM | 178,722 | 202,820 |
| **MSM Ratio** | **643%** | **1045%** |

*Figure 11 - Summary of ECR and MSM for the Company.*

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

None.

### Circumstances surrounding the non-compliance and the remedial measures taken and their effectiveness

Not applicable.

### Where the non-compliance has not been resolved, a description of the amount of the non-compliance at the end of the reporting period

Not applicable.

## E.3 Approved Internal Capital Model

The Company has not applied to use an Internal Capital Model.

# F Subsequent Events

# F Subsequent Events – Particulars and Explanations

## F.1 Description of the significant event

On 1 January 2023, the PLRL Canada Branch business was transferred to the Canada Branch of RIBM by way of individual novation of treaties. Loan notes were issued by RIBM to PLRL as consideration for the Canada business transfers. On 1 January 2023, the majority of Canadian market reinsurance business in RGBM was transferred to RIBM Canada branch through novation of individual treaties. On the same day the retrocession arrangement between PLRL Canada Branch and PLIC was recaptured. Concurrently on 1 January 2023, RIBM Canada branch set up two new 75% retrocession treaties with RGBM separate for its Protection and Longevity business.

On 1 January 2023 the PLRL Korea Branch business was transferred to the Korea Branch of RIBM by way of a Korean law portfolio transfer for cash.

Having transferred all the business out of PLRL during the period, PLRL has commenced the process of cancelling all of its regulatory permissions in the UK legal entity and its branches. (The Singapore Branch of PLRL was deauthorised on 8 June 2022.) It is expected that PLRL will be fully deauthorised and then subsequently wound up in the first half of 2024.

PLRH is expected to be wound up in the first half of 2024 alongside PLRL.

On 20 March 2023, RGBM declared a distribution of £9 million ($11 million) to PLRH LLC, which was settled on 28 March 2023.

On 10 February 2023, Jay Orlandi was appointed as non-executive director of RIBM, representing Pacific Life. He was also appointed as Chairperson of RemCo on 11 February 2023. On 20 March 2023, Vibhu Sharma was appointed as non-executive director of the RIBM, representing Pacific Life. Both directors also became members of RIBM's Risk and Audit Committees. Also on 20 March 2023, Gary Falde, non-executive director of the RIBM, representing Pacific Life, resigned from the Board and all committees.

The Pacific Life group has been designated an IAIG with effect from 5 February 2023. The designation has been made by the Nebraska Department of Insurance (Nebraska DOI) under the rules of the International Association of Insurance Supervisors.

## F.2 Approximate date or proposed timing of the significant event

Refer to F.1 above.

## F.3 Confirmation of how the significant event has impacted or will impact

Refer to F.1 above.

## F.4 Any other material information

There is no other material information to report on at the date of the FCR filing.

# G Glossary

# G. Glossary

| | |
|---|---|
| Annual incentive plan | AIP |
| Approved Actuary | AA |
| Australian Prudential Regulation Authority | APRA |
| Bermuda Monetary Authority | BMA |
| Bermuda Solvency Capital Requirement | BSCR |
| Best estimate liability | BEL |
| Board Audit Committee | BAC |
| Board of Directors | Board |
| Board Remuneration Committee | Remco |
| Board Risk Committee | BRC |
| BU Investment Committees | BUIC |
| BU Risk Management Committee | BURMC |
| Business Unit | BU |
| Chief Executive Officer | CEO |
| Chief Executive Officer of the Pacific Life Group | PL CEO |
| Chief Financial Officer | CFO |
| Capital Management Policy | CMP |
| Chief Risk Officer | CRO |
| Commercial Insurers Solvency Self-Assessment | CISSA |
| Division Risk Management Committee | DRMC |
| Economic Balance Sheet | EBS |
| Executive Committee | ExCo |
| Financial Condition Report | FCR |
| Global Funded Solutions | GFS |
| Her Majesty's Revenue and Customs | HMRC |
| Internationally Active Insurance Group | IAIG |
| Independent Non-Executive Director | INED |
| Internal Economic Capital | EC |
| Long Term Incentive Plan | LTIP |
| Minimum Margin of Solvency | MSM |
| Non-Executive Director | NED |
| Pacific LifeCorp | PLC |
| Pacific Life Holdings Bermuda Limited | RHBM |
| Pacific Life Insurance Company | PLIC |
| Pacific Life Re or PL Re - PMHC's global life reinsurance division | Division |
| Pacific Life Re (Australia) Pty Limited | PLRA |
| Pacific Life Re Global Limited | RGBM |
| Pacific Life Re Holdings Limited | PLRH |
| Pacific Life Re Holdings LLC | PLRH LLC |
| Pacific Life Re International Limited | RIBM |
| Pacific Life Re International Limited and its subsidiaries | The Company |
| Pacific Life Re Limited | PLRL |
| Pacific Life Re Services Limited | PLRS |
| Pacific Life Services Bermuda Limited | RSBM |
| Pacific Mutual Holding Company | PMHC |
| Pacific Mutual Holding Company and its subsidiaries | Pacific Life Group |

| | |
|---|---|
| Pacific Services Canada Limited | PSCL |
| Risk and Control Self-Assessment | RCSA |
| Risk management information | Risk MI |
| Share subscription agreement | SSA |
| Transition Enhanced Capital Requirement | ECR |
| United Kingdom | UK |
| United States | US |
| US Generally Accepted Accounting Principles | US GAAP |

*Figure 11 - Glossary*