KPMG

Report of the Approved Actuary

Scheme of Transfer between
CICA Life Ltd (Bermuda)
and
CICA Life AI (Puerto Rico)

3 May 2023

KPMG

Contents

1 Introduction

1.1 Purpose of the Report

In 2018, Citizens, Inc. ("Citizens"), novated the policies held by non-U.S. policyholders of CICA Life Insurance Company of America ("CICA America"), one of its U.S. based insurance subsidiaries, to a newly formed Bermuda insurance company, CICA Life, Ltd. ("CICA Bermuda"), in order to mitigate tax withholding issues that arose under §7702 of the U.S. Internal Revenue Code. After four years of business in Bermuda, and with feedback from their policyholders and agents, CICA Bermuda engaged in a strategic review of their business, including discussions with their independent agents, that identified several unanticipated challenges to their policyholders, such as:

- Their policyholders purchase their policies for the safety of the U.S. dollar. Although the products are still U.S. dollar denominated, they have concerns about purchasing or owning a life insurance product outside of the U.S., or a U.S. territory.
- The vast majority of their policyholders speak Spanish and desire to do business in a Spanish-speaking country, which offers more synergies for value-added services.
- Operating in Bermuda has higher administrative costs than other solutions, including costs related to Common Reporting Standards ("CRS") compliance and is putting financial pressure on CICA Bermuda, which ultimately impacts their policyholders.

After forming CICA Life, A.I., a Puerto Rican international insurance company ("CICA PR"), Citizens determined that it would be best for CICA Bermuda and its policyholders to relocate its international business to Puerto Rico to better align with policyholder expectations and position Citizens' international business for growth. CICA PR is licenced by the Office of the Commissioner of Insurance of Puerto Rico ("OIC") as a Class 5 international insurer. The purposes of forming CICA PR are:

- To give the non-U.S. policyholders the ability to purchase policies in a U.S. territory
- To fit in with the largely Latin American demographic of the Citizens group international business - Spanish speaking country
- The policies issued will not be subject to §7702 or any equivalent statute
- Participates in FATCA tax reporting so easier for U.S.-based company to administer

This report ("Report") is prepared by the Approved Actuary (as defined below) in order to aid the Bermuda Supreme Court ("Bermuda Court") as well as the Bermuda Monetary Authority ("BMA") and the OIC (the BMA and the OIC henceforth being known collectively as "Regulators") in their deliberations. It is also intended to meet the Section 25 requirements of the Bermuda Court. This Report describes the proposed scheme of transfer to be entered into between CICA Bermuda and CICA PR ("Scheme of Transfer" and such transfer, the "Proposed Transfer") and discusses its possible effects on the relevant policyholder groups, including effects on security and levels of service. The report is organised into eight sections as follows:

- Section 1: Purpose of the Report and the role of the Approved Actuary.
- Section 2: Executive Summary and Conclusions.
- Section 3: Provides relevant background information on Citizens, the ultimate parent company of CICA Bermuda (the "Transferor") and CICA PR (the "Transferee").
- Section 4: Provides relevant background information on the Transferor.

- Section 5: Provides relevant background information on the Transferee.
- Section 6: Provides commentary on the Scheme of Transfer.
- Section 7: Provides an assessment of the Scheme of Transfer on the financial security of policyholders.
- Section 8: Provides an assessment of the Scheme of Transfer on the fair treatment of policyholders.

1.2 Approved Actuary

I, Brendan McCarthy, am a Managing Director in KPMG Ireland ("KPMG") specialising in life insurance actuarial services. I am a Fellow of the Society of Actuaries in Ireland. My summary curriculum vitae is included in Appendix 2.

I have been appointed by CICA Bermuda to act as the approved actuary ("Approved Actuary") in connection with the Scheme of Transfer, without any objections from CICA PR. As noted, I understand that both the BMA and the OIC have been briefed as necessary on the portfolio transfer process. The terms on which I was formally appointed are set out in an engagement letter dated 17 August 2022 ("Engagement Letter"), and an extract of my scope is included in Appendix 1.

I am a Managing Director in KPMG Ireland, and undertake to perform my functions in accordance with the Bermuda Insurance Act 1978 ("Insurance Act") and the professional standards of the Society of Actuaries in Ireland.

I am satisfied that I possess the appropriate integrity, competency, resources, qualifications and experience to serve in the capacity of Approved Actuary; and that I am appropriately conversant with the BMA's regulatory requirements and guidance material.

To the best of my knowledge, I have no conflicts of interest in connection with the parties involved in the Scheme of Transfer and I consider myself able to act as an Approved Actuary on this transaction.

I have also considered the position of KPMG where KPMG Ireland provide independent Approved Actuary services to CICA Bermuda. I can confirm I have carried out appropriate internal checks in line with KPMG's internal risk management procedures with no issues being raised. My work has been performed independently of actuaries who perform work for CICA Bermuda.

I am not a qualified lawyer or tax expert. I have not considered it necessary to seek my own specific legal or tax advice on any element of the Scheme of Transfer. The costs and expenses associated with my appointment as Approved Actuary and the production of this Report will be met by the shareholders of Citizens. All costs associated with the Proposed Transfer will be borne by Citizens and will not affect the asset or liability positions of CICA Bermuda or CICA PR (henceforth known as "Scheme Entities") and are immaterial to the overall financial positions of Citizens or the Scheme Entities.

The Report has been prepared in line with the Society of Actuaries in Ireland's Actuarial Standard of Practice, LA-6 "Transfer of Insurance Portfolio of a Life Insurance Company – Role of the Independent Actuary", (effective date 1 September 2021).

In line with the quality assurance considerations outlined in the Society of Actuaries in Ireland's Actuarial Standard of Practice, PA-2 "General Actuarial Practice" (effective date 1 March 2022), this Report has been subject to internal KPMG risk management processes and peer review in line with those professional requirements. The peer review was performed by a senior actuary in KPMG's actuarial practice.

1.3 Scope of Report

I owe an overriding duty to the Bermuda Court to give them independent actuarial evidence on the Scheme of Transfer.

However, I note that the Regulators will have access to the Report. In preparing this Report, management of CICA Bermuda and CICA PR have consulted with the respective Regulators on my behalf on the required contents, as appropriate to their respective interest in the Proposed Transfer. Their feedback has been shared with me and considered in my drafting of this Report. In short:

- CICA Bermuda met with the BMA in relation to the Proposed Transfer; and
- Upon receiving its Certificate of Authority from the OIC, CICA PR submitted an amended business plan to the OIC noting the intent to transfer the CICA Bermuda business to CICA PR.

This Report is prepared primarily to assess the likely impact that the Scheme of Transfer will have on the transferring policyholders of CICA Bermuda into CICA PR.

I do not need to consider any remaining policyholders of CICA Bermuda as I understand the Scheme of Transfer has been designed to ensure all CICA Bermuda policyholders transfer to CICA PR.

This Report is limited in its scope to the assessment of this Scheme of Transfer alone and not to any other possible scheme. It is intended that this Report be submitted, in full, as evidence to the Bermuda Court when it considers whether or not to sanction the Scheme of Transfer.

The term "Effective Date", as used in this Report, refers to the date at which, if the Scheme of Transfer proceeds, CICA Bermuda's insurance liabilities and assets will be transferred to CICA PR, such that the policyholder liabilities are extinguished in CICA Bermuda. This date also reflects the commencement of liability obligations to the aforementioned policyholders by CICA PR. The assumed Effective Date for the Scheme of Transfer underpinning the analysis in this Report is 31 March 2023, which is not expected to be achievable at the time of writing of this Report. I note that a short delay in terms of the timing of the Proposed Transfer, e.g. up to six months, is not expected to materially change the findings (see Section 2.1.6) or the conclusions drawn (see Section 2.2) within the Report given the relatively small levels of business expected to be written in CICA PR compared to the business held on CICA Bermuda's balance sheet during that time.

My consideration of the financial effects of the Scheme of Transfer has been based on the financial statements, regulatory returns, and other financial related information, including actuarial reports. The regulatory requirements are further outlined in Appendix 4 (regulatory reporting requirements of the BMA in Bermuda) and Appendix 3 (regulatory reporting requirements of the OIC in Puerto Rico).

1.4 Assurances

The Report is written in the first person singular and the opinions expressed are my own.

In preparing this Report I have done my best to be accurate and complete. I have considered all matters that I regard as relevant to the opinions I have expressed, and I have considered all matters that I believe may be relevant to the policyholders of CICA Bermuda and CICA PR in their consideration of the Scheme of Transfer. All the matters on which I have expressed an opinion lie within my field of experience.

I have been provided with a copy of (i) the communications presented to the CICA Bermuda Board of Directors on 15 September 2022 outlining the rationale and process involved in respect of the Proposed Transfer, (ii) minutes of the Special Meeting of the Board of Directors of CICA Bermuda held on 21 November 2022, approving the Proposed Transfer, and (iii) minutes of the in person Board of Directors meeting of CICA Bermuda held on 30 November 2022 in Bermuda to ratify the 21 November 2022 actions. I understand that approval by the members of the CICA Bermuda Board of Directors was unanimous.

I have received a letter of representation from Jeffery P. Conklin (Vice President, Chief Financial Officer of Citizens, Director of both CICA Bermuda and CICA PR) as to the accuracy of information provided to me.

In the course of carrying out my work and preparing this Report I have considered various documents provided to me by CICA Bermuda and CICA PR. A summary list of the main documents I have considered is set out in Appendix 5.

All of the data and information which I have requested has been provided to me by CICA Bermuda and CICA PR and their advisers as appropriate. I have relied upon the accuracy and completeness of this data and information, which has been provided to me both in written and oral form. I have not sought independent verification of data and information provided to me by the Scheme Entities, nor does my work constitute an audit of the financial and other information provided to me. In addition, I have, where possible, reviewed the information provided for reasonableness. Where critical information has been initially provided orally, I have requested and obtained written confirmation.

I have conducted conference calls with representatives of the Scheme Entities to discuss the information provided to me and specific matters arising out of the considerations and analysis conducted.

In my role as Approved Actuary, the Scheme Entities have contacted on my behalf the appropriate individuals within the BMA and OIC as appropriate. I have been made aware of relevant discussions between the Regulators and the Scheme Entities, and specifically inquired of them whether there were specific issues of which I should be made aware.

1.5 Qualifications and Limitations

This Report must be read in its entirety. Reading individual sections in isolation may be misleading.

A copy of this Report will be made available to the Bermuda Court, the Regulators, and the Boards of Directors of the Scheme Entities. Additionally, this Report and a summary of the Report will be available on Citizens' website at https://www.citizensinc.com/cica-ltd-transition-cica-ai-puerto-rico/ for policyholders to view and download and will be available for physical inspection at the offices of the CICA Bermuda's counsel in Bermuda, Kennedys, at 20 Brunswick, HM10, Hamilton, Bermuda between the hours of 9:00 am and 5:00 pm (AST) Monday to Friday (excluding public holidays) until the date that the Bermuda Court convenes to determine whether to sanction the Proposed Transfer. Details regarding how to access, download and view the Report and the summary of the Report will be included in the Circular to Policyholders that will be sent to CICA Bermuda policyholders.

This Report is prepared solely in connection with, and for the purposes of, informing the Bermuda Court, the BMA, the OIC, and relevant potentially affected policyholders of my findings in respect of the impact of the Scheme of Transfer on the security and expectations of these policyholders, and may only be relied on for this purpose. This Report is subject to the terms and limitations, including limitation of liability, set out in the Engagement Letter. An extract from this Engagement Letter describing the scope of my work is contained in Appendix 1.

This Report should not be regarded as suitable to be used or relied upon by any party wishing to acquire any right to bring action against KPMG in connection with any other use or reliance. To the fullest extent permitted by law, KPMG will accept no responsibility or liability in respect of this Report to any party.

In my role as Approved Actuary, I have in the normal course of conducting this role been provided with a significant and appropriate amount of information and data about the Scheme Entities' activities and performance. When forming my view as set out in this Report, these disclosures and information have formed a necessary and vital contribution.

As noted in Section 4.9, at 30 June 2022, based on CICA Bermuda's unaudited financial results, the company did not meet its Minimum Margin of Solvency ("MMS") resulting from the rapidly rising interest rates. CICA Bermuda had been in compliance prior to this quarter. The breach was reported to the BMA. As the Bermuda Insurance Act of 1978 permits, CICA Bermuda requested a modification under Section 6C for purposes of calculating the minimum solvency margin. At 31 December 2022 CICA Bermuda was compliant with its MMS after being granted a permitted practice by the BMA. The BMA has permitted CICA Bermuda to record fixed income securities at amortized costs in the unconsolidated Statutory Financial Statements. I note that the Section 6C modification is in respect of 31 December 2022 only. I have been provided with LDTI projections by the Company for 2023 which show that, assuming significant market volatility does not present itself in the period, the level of stockholder's equity is expected to comfortably exceed the MMS. Thus, should the Proposed Transfer be delayed, a further Section 6C modification is not expected to be required.

I understand that CICA PR's legal advisors (Rexach & Picó) have interpreted the OIC Rule 80 regulatory requirements to mean that while U.S. Generally Accepted Accounting Principles (" US GAAP") can form the basis of preparation for the financial statements, a reconciliation to Statutory Accounting Principles ("SAP") is required and the surplus obtained using SAP forms the basis for calculating the premium to surplus ratio that is used to demonstrate the regulatory solvency position and compliance with those requirements. I have reviewed the Rule 80 requirements and the legal interpretation appears reasonable. Notwithstanding, I have relied on Rexach & Picó's interpretation of the Rule 80 regulatory requirements when preparing this Report.

I have been provided with a letter from Citizens' Chief Actuary, Harvey Waite (who is also the actuary for CICA PR), who has reviewed the underlying solvency calculations provided to me, including the reconciliation between figures prepared on a US GAAP and SAP basis required by the OIC. In aggregate, while I consider the assumptions and financial projections provided me by management to be reasonable based on the explanations and supporting information provided to me, I have relied on the review performed by Mr. Waite when preparing this report. More details of the assumptions underlying the financial projections (as provided by Citizens and the Scheme Entities) can be found in Appendix 10.

I note in different parts of this report, there are references made to financial projection and assumption information provided to me by management. These references relate to information provided in respect of Citizens and the Scheme Entities. I note that for the entities involved that the management team is the same across all three organisations.

This Report is based on information made available to me at or prior to 15 March 2023 and takes no account of developments after that date. Where available, up to date year-to-date figures, as at 31 December 2022, have been provide to me and are reflected throughout the Report. The projections contained within this Report have been prepared using data available up to 30 June 2022, updated to reflect market conditions at 30 September 2022 where possible.

1.6 Limitations of Liability and Legal Jurisdiction

This Report is subject to the terms and conditions, including limitation of liability and legal jurisdiction, set out in the Engagement Letter (see Appendix 1).

1.7 Commercial Sensitivities

Due to commercial sensitivities, some of the information I have relied upon to reach my conclusions cannot be disclosed in a public report such as this. This approach has been discussed and agreed with the management of Citizens and the Scheme Entities, and the Regulators. However, I can confirm that appropriate detailed information has been provided to me to enable me to form the opinions I express to the Bermuda Court in this Report. If specifically required by the Bermuda Court, I can comment in a private letter addressed to the regulator/judge only on specific areas of interest.

1.8 Bermuda Terminology

In my discussion of the effects of the Scheme of Transfer on the Scheme Entities concerned, I use various technical terms. The definitions of these terms as used in this Report are contained in the Glossary in Appendix 6.

1.9 Currency

I have identified clearly the currency of figures presented throughout the Report. The figures included reference those reported under both the Bermudian and Puerto Rican regulatory regimes and are presented in US Dollars (US$ or $). Where applicable, the exchange rate used is identified in the relevant table.

2 Executive Summary and Conclusions

2.1 Executive Summary

2.1.1 Overview

After four years of business in Bermuda, and with feedback from their policyholders and agents, CICA Bermuda engaged in a strategic review of their business, including discussions with their independent agents, that identified several unanticipated challenges to their policyholders, such as:

- Their policyholders purchase their policies for the safety of the U.S. dollar. Although the products are still U.S. dollar denominated, they have concerns about purchasing or owning a life insurance product outside of the U.S., or a U.S. territory.
- The vast majority of their policyholders speak Spanish and desire to do business in a Spanish-speaking country, which offers more synergies for value-added services.
- Operating in Bermuda has higher administrative costs than other solutions, including costs related to Common Reporting Standards ("CRS") compliance and is putting financial pressure on CICA Bermuda, which ultimately impacts their policyholders.

After forming CICA PR, Citizens determined that it would be best for CICA Bermuda and its policyholders to relocate its international business to Puerto Rico to better align with policyholder expectations and position Citizens' international business for growth.

The business currently written by CICA Bermuda will be the same as that written by CICA PR, although CICA PR intends to write critical illness as an additional line of business.

All insurance liabilities of CICA Bermuda are expected to transfer as part of the Scheme of Transfer, with no insurance liabilities remaining.

Reflecting the movement in insurance liabilities and as noted above, post-transfer it is expected that CICA Bermuda will no longer have an insurance license and may ultimately be wound up and dissolved.

This Report considers the impact of the Scheme of Transfer of the insurance business of CICA Bermuda into CICA PR.

Further background to the Scheme of Transfer is included in Section 6.

2.1.2 Approach

My approach to assessing the likely effects of the Scheme of Transfer on policyholders was to:

- Understand the businesses of the Scheme Entities.
- Understand the effect of the Scheme of Transfer on the assets, liabilities, and capital (on the various regulatory bases) of the Scheme Entities.

Having identified the effects of the Scheme of Transfer on the Scheme Entities, I then:

- Identified the groups of policyholders directly affected.
- Considered the impact of the Scheme of Transfer on the security of each group of policyholders.
- Considered the impact of the Scheme of Transfer on the benefit expectations of each group of policyholders.
- Considered other aspects of the impact of the Scheme of Transfer (for example, policyholder service and any changes in administration or other arrangements).

In order to consider the effect of the Scheme of Transfer on each of the Scheme Entities and groups of policyholders concerned, I have been provided with relevant information for each legal entity, including:

- CICA Bermuda's historic financial information based on audited regulatory filings and financial statements.
- CICA PR's forecasted financial information based on business case, including this Scheme of Transfer.
- In forming my opinion, I have raised queries with key personnel responsible for core functions in Citizens and the Scheme Entities.
- I have considered the different capital support arrangements available that might be drawn upon to manage adverse events which may impact the financial position of CICA PR.

Significant other information that was provided is set out in Appendix 1.

2.1.3 Key assumptions

With regard to the Scheme of Transfer, I understand that:

- CICA Bermuda will transfer its entire long-term business to CICA PR.
- CICA Bermuda was closed to new business as of 31 December 2022, with all Citizens' new international business as of such date to be written through CICA PR. I note that this has occurred regardless of the Proposed Transfer.
- CICA PR will continue to be subject to the regulatory regime set out by the OIC.
- The reinsurers of CICA Bermuda have agreed to the Scheme of Transfer so that the same reinsurance arrangements remain in place post the Proposed Transfer.
- There will be no changes in policy terms and conditions.
- It is not intended that the Scheme of Transfer will give rise to any material changes for CICA PR from how currently done by CICA Bermuda. to any of the following:
  - Insurance products underwritten. (although CICA PR may expand product offering, including underwriting critical illness products).
  - Risk management approach.
  - Investment management arrangements.
  - Administration and infrastructure arrangements.
  - Control function arrangements across risk, compliance, and actuarial.

The above assumptions underlie the analysis and conclusions in my Report. If any of these assumptions were to change, my opinion may also change. Underpinning my Report, I have received written representations from authorised executives representing CICA Bermuda and CICA PR that the key assumptions listed above correctly represent the current intentions, and that the information I have been provided accurately reflects these businesses.

2.1.4 Scheme of Transfer document

I note that the Scheme of Transfer includes the requirements that I would expect to see based on my understanding of how the Scheme of Transfer will be executed. I have considered other relevant scheme of transfer documents for transfers of long-term business portfolios in Bermuda and the necessary detail is included in it from my perspective. However, I note I am not a legal expert, and the comments reflect my reading of the document as Approved Actuary.

2.1.5 Regulatory jurisdictions

I note that the Scheme of Transfer allows for the transfer of the business from Bermuda to Puerto Rico. I would note more generally that the Bermuda regulatory environment which CICA Bermuda has been subject to is viewed as being equivalent to the European regulatory regime, Solvency II. I note that the Puerto Rico regulatory regime would not be viewed as equivalent. There are a number of considerations for me:

- Understand the attitude of both sets of Regulators in the first instance.
- Review of a summary analysis on a comparison of the regulatory and relevant legal regimes pertaining to life insurance policyholders in both jurisdictions. I note that no issues emerged from my review.
- Review of the consistency of the policyholder protection regimes in both jurisdictions and that neither have insurance compensation schemes. I note that no issues emerged from my review.

On the basis of the above, I have focused on financial strength (outlined in further detail below) more generally and consumer protection. In terms of consumer protection requirements, I have focused principally that the policyholder terms and conditions will not be changed so what policyholders currently experience and interpret as their contractual benefits and obligations remain unchanged. It is further assumed that the terms and conditions will remain in place for the duration of the portfolio. This will be a condition of my conclusion.

2.1.6 Findings

The findings of my Report are summarised below:

General

- The Scheme of Transfer is expected to involve the transfer of all CICA Bermuda's policyholder liabilities and assets to CICA PR, save the regulatory minimum paid up share capital of $250k is expected to remain in CICA Bermuda to support the minimum paid up share capital requirements until CICA Bermuda has surrendered it license to the BMA.
- CICA PR is a wholly owned subsidiary of CICA Bermuda. CICA PR has requested a change of ownership modification with the OIC. The modification will consist in the replacement of CICA Bermuda, as direct parent company of CICA PR. The new direct parent company will be NEXO Global Services, LLC, a recently created Puerto Rico limited liability company ("NEXO"). The Company are waiting on formal approval from the OIC. It is my understanding that the change of ownership modification will be resolved ahead of the Effective Date.
- As consideration for the acceptance of transfer of liabilities under the policies comprising the transfer of the long-term business under the Transfer (the "Transferring Business"), CICA Bermuda shall pay to CICA PR its "Transferring Assets" (i.e. all assets comprised in or relating to the Transferring Business minus assets representing the Paid Up Share Capital) for such liabilities as at the Effective Date. For the purposes of this Report Transferring Business and Transferring Assets are as defined in the Scheme of Transfer.
- I understand that there are no specific or material issues with respect to the Scheme Entities' regular obligations to and engagements with the Regulators.

Financial Strength Assessment

- I have considered the relative capital strength of CICA Bermuda and CICA PR Life both pre-and post-the Proposed Transfer.
  - I have considered the BMA regulatory reporting basis as described in Appendix 4. The latest financial information provided to me for CICA Bermuda related to 30 September 2022. These are the most recent financial figures available and are still deemed appropriate.
  - I have considered the OIC regulatory reporting basis as described in Appendix 3. I have based my financial analysis on projected financial information at the Effective Date for the Scheme Entities before and after the Proposed Transfer.
- The current reserving basis for CICA Bermuda is calculated on a best-estimate basis (Gross Premium Valuation method as described in Section 4.3.3), while the reserves will be calculated under US GAAP post-transfer. For regulatory purposes, a number of adjustments are made (as set out in Section 5.3.1 and Appendix 7) to calculate the Statutory Capital and Surplus used for assessing compliance with the OIC regulatory capital requirements.
- As required by the Laws and Regulations of Puerto Rico that are implemented by the OIC, CICA PR, an international insurer, will maintain, at all times, sufficient liquid assets, to satisfy both capital and surplus as well as the premium and liquidity ratios. CICA PR is classified as Class 5 Authority Insurer; therefore the thresholds for capital requirements are $750,000 of capital and surplus with minimum capital of $750,000 (the “Required PR Capital”). In addition, as a Class 5 insurer, CICA PR is required to maintain a premium to surplus ratio (defined as annualised premium over statutory surplus) of 7 to 1 or less (the “Required PR Surplus Ratio”). I have been provided with a copy of Certificate of Authority of CICA PR from the OIC, dated 28 September 2022. I note the Certificate of Authority does not set out the specifics of the premium ratio for CICA PR, which can differ by insurer as it is based on the approved business plan (Operational Plan submitted along with the authorisation application). I understand the Certificate of Authority issued by the OIC to CICA PR was approved based on the original business plan submitted to the OIC, and I have relied on that when forming my conclusions.
- In reaching my conclusions, I have evaluated the impact that the change in regulatory regimes will have on (i) the level of capital and surplus, and (ii) the level of surplus assets.
  - For CICA Bermuda, the excess level of surplus assets over the regulatory requirements changes considerably as a result of the Proposed Transfer due to the different regulatory regimes. The expected amount of surplus assets in excess of the Required PR Surplus Ratio expected in CICA PR immediately after the Proposed Transfer is relatively small when compared to the Economic Balance Sheet (“EBS”) surplus that exists in respect of BMA regulatory reporting. This is a function of a number of differences relating to both the accounting treatment of the assets and liabilities (which results in a more prudent view of the balance sheet) and the level of total statutory capital and surplus required to be held (which are lower in Puerto Rico) and not a function of a lesser amount of assets or greater liabilities after the Proposed Transfer.
  - At 30 June 2022, CICA Bermuda had surplus assets of $81.5m in respect of regulatory requirements of $35.4m for the purposes of assessing the regulatory balance sheet in respect of BMA regulatory reporting regime. Immediately before the Effective Date, the level of surplus assets under the OIC regulatory regime is expected to reduce in respect of lower regulatory requirements. So, while the perceived strength of the business has reduced this is due to the different regulatory regimes and therefore more conservative treatment of the balance sheet, which is unchanged in terms of asset composition, offset by reduced capital requirements.
- I have also evaluated how the sensitivity to market movements of the current and expected future exposure to limited partnerships and equity investments (as detailed in Section 5.6.3 and Appendix 9) directly impacts on the capital and surplus position under the different regulatory regime in Puerto Rico. I note that an Asset Valuation Reserve ("AVR") is required under the regulatory regime in Puerto Rico whereas under US GAAP, no AVR is recorded (see section 5.3 for a discussion of AVR calculation). While I note that under the Puerto Rico regulatory regime, AVR would mean CICA PR would be able to absorb a shock to their value up to a certain point (as the AVR acts as a loss absorbing mechanism up to a point), the economic backdrop is currently quite volatile, which could significantly impact on the value of these investments in a short time

period, which in turn could result in a regulatory breach under the OIC regulatory regime. I note, however, that the sensitivities and values considered are non-cash items (and as noted not recorded under US GAAP), so this evaluation is not an evaluation on the cash position of CICA Bermuda or Citizens and do not impact Citizens' ability to inject capital into CICA PR if there was a possibility of a regulatory breach. With respect to these sensitivities, I note the following:

- I consider the sensitivities tested in Section 5.6.3 of the Report to capture the material risk exposures to which CICA PR will be exposed to over the planning horizon post transfer. I consider that the sensitivities were severe enough to provide a reasonable understanding of the risks to which CICA PR will be exposed to post transfer.
- I also note the potential measures that CICA PR could take in the event of a breach of Required PR Surplus Ratio, as set out in Section 5.6.3 which note that Citizens will provide needed capital to CICA PR to ensure the Required PR Surplus Ratio is maintained.
- I note that in April 2021, CICA Bermuda implemented a $10 million Keep Well Agreement with Citizens based upon discussions with the BMA. The purpose of the Keep Well Agreement is to provide the option of an additional capital injection to support CICA Bermuda's capital position given the interest rate volatility in their EBS and BSCR ratio. I note that a new Keep Well Agreement (the "PR Keep Well Agreement") has been entered into between Citizens and CICA PR, with the same terms and conditions as the existing Keep Well Agreement, updated to be consistent with Puerto Rico law, and includes provisions relating to the Required PR Surplus Ratio and sensitivity exposure to the limited partnership investments. I have also been provided with a legal opinion on the enforceability of the PR Keep Well Agreement from CICA PR's Puerto Rico legal advisors, Rexach & Picó and Citizens' Chief Legal Officer, Sheryl Kinlaw, which consider the enforceability of the PR Keep Well Agreement from a Puerto Rico and Colorado legal perspective, respectively.
- Given the exposure to the limited partnership investments, the management of Citizens and the Scheme Entities have done the following, which mitigate the exposure to the sensitivity to market movements of the limited partnership investments:
  - The Scheme of Transfer requires CICA PR to hold target capital and surplus sufficient to absorb a 5% fall in the market value of the underlying corporate bond portfolio and a 40% fall in the market value of the underlying common and preferred stock portfolios underlying the Limited Partnership investments. The target capital and surplus can be reduced to allow for the financial impact of the PR Keep Well Agreement.
  - Citizens has entered into the PR Keep Well Agreement, which requires that it is kept in place until such time as CICA PR has sufficient capital and surplus to absorb a 5% fall in the sum total of the market value and unfunded commitment calls of the corporate bond portfolio and a 40% fall in sum total of the market value and unfunded commitment calls of the common and preferred stock portfolios underlying its Limited Partnership investments. The Scheme of Transfer also references the PR Keep Well Agreement as an additional requirement to keep it in place as described above.
  - The Board of Administrators of NEXO has resolved to contribute $3m in additional capital to CICA PR ahead of the Effective Date to reduce reliance on the PR Keep Well Agreement in the first instance. Since this capital injection would not be required if the Proposed Transfer did not occur, the proposed timing of the capital injection appears reasonable.

- I note that as a result of these activities, that the capital projections and sensitivities prepared suggest that CICA PR would have sufficient assets to meet their liabilities and policyholder commitments should the sensitivities tested materialise.
- I also note that should the level of limited partnership investments be in line with expectation, then the level of capital and surplus should be sufficient without the need for additional capital supports, save the $3m capital injection as noted above.
- I have also considered Citizens' ability to provide the necessary capital support if required. I note:
  - The Total Stockholders' Equity for Citizens and consolidated subsidiaries at 31 December 2022 are heavily distorted by the accumulated other comprehensive income (loss) ("AOCI"), which is driven by the

unrealized loss positions on the subsidiary balance sheets resulting from the rapidly rising interest rates and stock market volatility during 2022. Because of Citizens' asset and liability duration matching policy, as a life insurer, the vast majority of their total investments are invested in longer-term fixed maturity securities, and they reported a pre-tax net unrealized loss on its available-for-sale securities at 31 December 2022. The credit ratings and default risk of their fixed maturity securities were not significantly impacted by the rise in interest rates and volatility in 2022 and because they intend to hold the long-term investments to maturity, they do not believe that the unrealized loss is indicative of their financial strength.

  - For Citizens the relatively small Total stockholders' equity at 31 December 2022 is a function of fair value accounting and doesn't consider the cash and available invested assets, which are readily available to provide financial support to the subsidiaries if required. The expectation is that the current level of unrealized losses will naturally unwind over time as the bonds trend towards maturity. While the historic and projected stockholders' equity figures are volatile on a US GAAP basis, the stockholders' equity figures excluding AOCI has been far more stable and far exceeds the potential capital needs required by CICA PR as set out in my Report.
  - In terms of the ability of Citizens to provide the necessary support, it holds separately fixed maturity securities, equities, other invested assets and cash available for capital management as noted in Section 3.3.1. I understand from Citizens that there are no restrictions on the use of these funds, although Citizens' Board of Directors approval would be required for a capital injection to be performed.
  - The fixed maturities securities are invested in shorter term assets that can be easily liquidated and around 60% of the portfolio has a duration of less than 5 years. At 31 December 2022, the fixed maturity securities market value on the Citizens balance sheet was 100% invested in investment grade securities at December 2022, and thus the risk of default on these assets can be considered to be relatively low.
  - Thus, in terms of the above considerations, and the fact that the PR Keep Well Agreement has been entered into and strengthened from the original Keep Well Agreement, and I have been provided with legal opinions on its enforceability (both from a Puerto Rico and Colorado Law perspective), I am of the view that Citizens would be in a position to inject capital into CICA PR if required to do so.

- As noted in Section 4.9, at 30 June 2022, based on CICA Bermuda's unaudited financial results, the company did not meet its Minimum Margin of Solvency ("MMS") resulting from the rapidly rising interest rates. CICA Bermuda had been in compliance prior to this quarter. The breach was reported to the BMA. As the Bermuda Insurance Act of 1978 permits, CICA Bermuda requested a modification under Section 6C for purposes of calculating the minimum solvency margin. At 31 December 2022 CICA Bermuda was compliant with its MMS after being granted a permitted practice by the BMA. The BMA has permitted CICA Bermuda to record fixed income securities at amortized costs in the unconsolidated Statutory Financial Statements. The impact of the modification is to increase the statutory capital and surplus to the total stockholders' equity (excluding AOCI) as set out in Section 4.3.1. After the business transfers it will be subject to Laws and Regulations of Puerto Rico's OIC insurance solvency framework which uses premium to surplus ratios. Thus, at that point the business will be accounted for using SAP whereby investments in bonds are generally carried at cost or amortized cost consistent with the modification received. Further details are set out in Section 5.3.1.
- I note that the Section 6C modification is in respect of 31 December 2022 only. I have been provided with LDTI projections by the Company for 2023 which show that, assuming significant market volatility does not present itself in the period, the level of stockholder's equity is expected to comfortably exceed the MMS. Thus, should the Proposed Transfer be delayed, a further Section 6C modification is not expected to be required.

Fair Treatment of Policyholders

- There are no planned changes to future policyholder terms and conditions. It is further assumed that the terms and conditions will remain in place for the duration of the portfolio.
- All assets including reinsurance contracts are expected to be transferred to CICA PR (except any assets in relation to policies that cannot be transferred due to AML or sanctions-related reasons – I note that I am not aware of any such assets), and therefore will continue to operate in the same way as they do currently. I

have been provided with a letter from CICA Bermuda's insurance broker, Innovative Reinsurance Group, indicating that all of our current reinsurers have agreed in principle to the Proposed Transfer.

- There are no changes planned to the quality of service delivery to policyholders by CICA PR. Similar to CICA Bermuda, CICA PR intends to outsource a number of functions to Citizens through a service agreement that has been approved by the OIC. The support that Citizens intends to provide includes: (i) underwriting; (ii) policyholder services; (iii) claims handling; (iv) marketing services; (v) actuarial services; and (vi) accounting and legal services. CICA PR believes this approach makes sense from a business and policyholder protection perspective, as Citizens' staff are familiar with the portfolio and the level of support it requires. The services will be provided, at Citizens sole option, at either Citizens headquarters in Austin, Texas, or in another location that Citizens may choose. Citizens will charge CICA PR a monthly fee equal to the actual expenses of providing services, plus 12.5% thereof (or such other amount as the OIC may approve from time-to-time).
- As part of the same group, both CICA Bermuda and CICA PR operate under broadly similar group-mandated governance arrangements. CICA PR follows strict adherence to the group governance structure and hence the standards of governance which will apply are high.
- For the CICA Bermuda policyholders, CICA PR will have contracts in place that are not part of the CICA Bermuda portfolio, such as critical illness contracts. This means that the existing CICA Bermuda policyholders will become exposed to the risks associated with these, such as morbidity risk. Whilst new risks are introduced, the Citizens' group has expertise at managing these risks and I do not believe that CICA Bermuda policyholders are disadvantaged as a result of the Proposed Transfer.
- For the existing CICA PR policyholders, the transferring CICA Bermuda book has products transferring that are generally aligned to those of CICA PR.
- From 28 February 2023, CICA Bermuda. will need to comply with an obligation under 8.1 of the Insurance Code of Conduct, to conduct its business with integrity and to manage conflicts of interest. This comprises the conduct of business framework applicable to insurers, such as CICA Bermuda, who do not write domestic business. There is no developed Treating Customers Fairly ("TCF") or Policyholder Reasonable Expectations ("PRE") regime in Puerto Rico and I have therefore used my experience to set out what would be typically included in such frameworks as it pertains to transfers.
- I have considered the effects of the Scheme of Transfer on the fair expectations and treatment of each of CICA Bermuda and CICA PR policyholders focusing on the following aspects:
  - *Security of benefits:* Policyholders have a reasonable expectation that their benefits are secure and will be paid as they fall due.
  - *Terms and conditions:* Policyholders have a reasonable expectation that the terms and conditions will not be amended over time, or are only changed so as to enhance the offering to policyholders.
  - *Entitlement to benefits:* Policyholders have a reasonable expectation that valid claims will be paid in accordance with policy terms and conditions. Product information does not confer any particular additional reasonable expectations over and above the contractual provisions.
  - *Service standards:* Policyholders have a reasonable expectation that the services they receive will be provided in a professional manner, and that claims and enquiries will be dealt with promptly.

  Therefore, I consider that the Scheme of Transfer does not impact on the fair expectations of any policyholders.

2.1.7 Policyholder communications

In terms of policyholder communications, I note:

- The intention is to communicate with CICA Bermuda policyholders via a Circular to Policyholders.
- I note that the Circular to Policyholders references the documents made available for consultation to CICA Bermuda policyholders (including a website link to view and download, as well as an address in Bermuda at Kennedys, CICA Bermuda's counsel, to physically inspect) will include:
  - This Report and a summary of this Report ("Summary Report")

  - The Scheme of Transfer
  - The petition to the Bermuda Court
- The Circular to Policyholders will advise policyholders of their right to be heard by the Bermuda Court at the sanction hearing regarding any objections. It will provide the policyholders with a summary of the key terms of the Scheme of Transfer, including (i) information on the background to and reasons for the Proposed Transfer, (ii) the effect of the Proposed Transfer on the policies and what the policyholders have to do, (iii) information about CICA PR, (iv) an overview of Bermuda regulatory protections and of the transfer proceedings, which includes a statement that this Report opines that the Proposed Transfer will not materially adversely affect the policyholders and is fair to the policyholders, (v) how to object to the Proposed Transfer, (vi) what happens on the Effective Date, and (vii) a listing of documents available for inspection and a helpline service to call for questions.
- In addition to the Circular to Policyholders, CICA Bermuda will publish a legal notice in connection with the Proposed Transfer in the Bermuda Royal Gazette.
- I understand that my Report will be available to policyholders via a link on Citizens' website at https://www.citizensinc.com/cica-ltd-transition-cica-ai-puerto-rico/ and the existence of the above-referenced documents will be very clearly signposted in the Circular to Policyholders. This approach is in line with my understanding of the BMA's expectations.
- In addition, the Circular to Policyholders will be made available on the Citizens' website.
- I understand that Spanish, Portuguese and Mandarin translations of the Circular to Policyholders and Summary Report will be made available to CICA Bermuda policyholders.
- There is no intention to communicate with the policyholders of CICA PR. It is my understanding that this is not a requirement of the OIC and therefore I consider it reasonable.

Given my finding above and with the agreement of the BMA, I am comfortable with this communication approach.

2.2 Conclusion

Having considered the impact of the Scheme of Transfer on both the transferring policyholders of CICA Bermuda and the existing policyholders of CICA PR it is my opinion that:

- The Scheme of Transfer will not have a material adverse effect on the reasonable benefit expectations or the financial security of any of the policyholders involved. Therefore, in my view, policyholders will not be materially adversely affected by the Scheme of Transfer.

My opinion in relation to CICA Bermuda and CICA PR is based on:

- My review of all the pertinent historic and current information provided by Citizens and the Scheme Entities;
- Citizens ability to provide the necessary capital support if required and the enforceability of the PR Keep Well Agreement; and
- Discussions with and written letters of representation from the management of CICA Bermuda and CICA PR on the factual accuracy of the information provided to me for the purposes of preparing this Report.

My assessments are made in the context of the regulatory regime in Bermuda and the regulatory regime in Puerto Rico.

I note that there is adequate planned communication of the Scheme of Transfer to the relevant policyholders.

I note the assumed Effective Date for the Scheme of Transfer underpinning the analysis in this Report is 31 March 2023, which is not expected to be achievable at the time of writing of this Report. I note that a short delay in terms of the timing of the Proposed Transfer, e.g. up to six months, is not expected to materially change the findings (see Section 2.1.6) or the conclusions drawn within the Report given the relatively small levels of business expected to be written in CICA PR compared to the business held on CICA Bermuda’s balance sheet during that time.

Brendan McCarthy

3 May 2023

________________________________ ______________________________

Brendan McCarthy, FSAI

Date

Approved Actuary

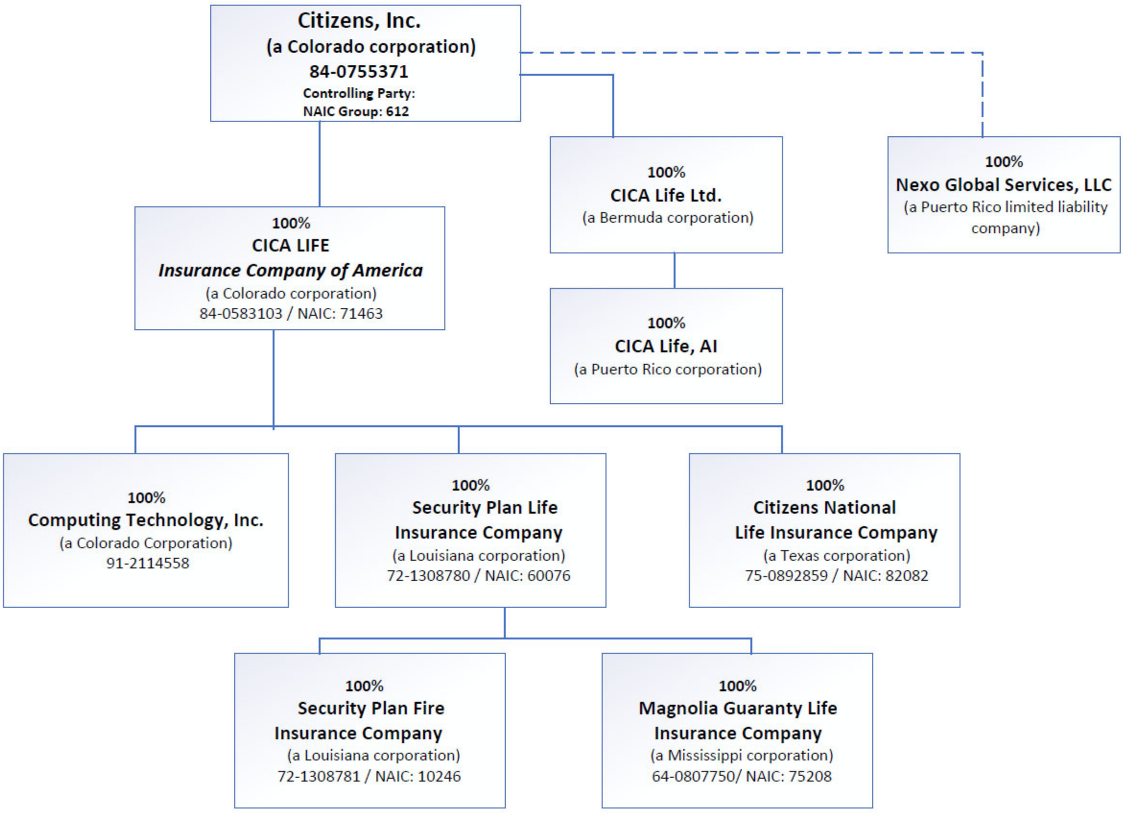
KPMG Ireland

3 Parent Company

3.1 Overview

3.1.1 Structure

Citizens conducts its operations as an insurance holding company with an emphasis on ordinary whole life insurance and endowment products in markets where it believes it can achieve distinct advantages over its competitors. Citizens has successfully operated this business model in a number of markets, both in the U.S. and in its overseas markets since its foundation. The graph below provides an overview of the company structure as at the date of this Report:



3.1.2 History and background

Citizens is an insurance holding company incorporated in Colorado serving the life insurance needs of individuals in the United States since 1969 and internationally since 1975. Through their insurance subsidiaries, they provide insurance benefits to residents in 32 U.S. states and more than 70 different countries. They pursue a strategy of offering traditional insurance products in niche markets where they believe they are able to achieve competitive advantages. They have approximately $1.9 billion of assets at 31 December 2021 and approximately $4.2 billion of sum assured in force. They operate in two business segments primarily:

- Life Insurance segment - U.S. dollar-denominated ordinary whole life insurance and endowment policies predominantly sold to non-U.S. residents, located principally in Latin America and the Pacific Rim through independent marketing consultants and whole life insurance sold domestically through independent agents; and
- Home Service Insurance segment - final expense life insurance and property insurance policies marketed to middle- and lower-income households, as well as whole life products with higher allowable face values, in Louisiana, Mississippi and Arkansas, and sold through independent agents and through funeral homes.

As an insurance provider, they collect premiums on an ongoing basis from their policyholders and invest the majority of the premiums to pay future benefits, including claims, surrenders and policyholder dividends. Accordingly, the Company derives its revenues principally from: (1) premiums earned for insurance coverage provided to their policyholders; and (2) net investment income. In addition to paying and reserving for insurance benefits that they pay to their policyholders, their expenses consist primarily of the costs of selling the insurance products (e.g., commissions, underwriting, marketing expenses), operating expenses and income taxes.

3.1.3 Nature of business written

The table below summarises Citizens' portfolio of business and describes the key product features.

Product	Description
WL	Level Death Benefit Whole Life Insurance, Premiums paid for Life. Participating
10 pay WL	Level Death Benefit Whole Life Insurance, Premiums paid for 10 years. Participating
20 Pay Endow	Level Benefit Endowment Life Insurance, Benefits Paid Upon Death or Maturity at Year 20, Premiums Paid for 20 years. Participating
10 Pay Endow	Level Benefit Endowment Life Insurance, Benefits Paid Upon Death or Maturity at Year 10, Premiums Paid for 10 years. Participating
15 Pay Endow	Level Benefit Endowment Life Insurance, Benefits Paid Upon Death or Maturity at Year 15, Premiums Paid for 15 years. Participating
Endow @ 65	Endowment Life Insurance, Benefits Paid Upon Death or Maturity at Attained Age 65. Premiums Paid to Attained Age 65. Participating
5 Pay 10 Endow	Level Benefit Endowment Life Insurance, Benefits Paid Upon Death or Maturity at Year 10, Premiums Paid for 5 years. Participating
WL Non-Par	Level Death Benefit Whole Life Insurance, Premiums paid for Life. Non-Participating

Optional riders (additional benefits) to the above base coverages include annuity riders, term riders, annual benefit premium riders and return of premium rider. Optional supplemental benefits include accidental death benefits, waiver of premium, payor death or disability, triple indemnity and expanded coverage endorsements.

3.2 Capital Profile

3.2.1 Capital reporting requirements

Citizens is regulated by the Colorado Division of Insurance pursuant to the insurance holding company regulations found in C.R.S. Section 10-3-801, et. seq. Whilst the holding company has minimal operations of its own, the assets consist of the capital stock of their subsidiaries, cash and investments. Citizens' liquidity requirements are met primarily from two sources: cash generated from their operating subsidiaries and their invested assets.

Citizens' ability to obtain cash from their insurance subsidiaries depends primarily upon the availability of statutorily permissible payments, including payments Citizens receives from service agreements with their insurance subsidiaries and dividends from the subsidiaries. The ability to make payments to the holding company is limited by applicable laws and regulations of Bermuda and the United States which subject insurance operations to significant regulatory restrictions. These laws and regulations require, among other things, that

Citizens' insurance subsidiaries maintain minimum capital requirements, which limits the amount of dividends that can be paid to the holding company.

The regulations also require approval of their service agreements with the applicable regulatory authority in order to prevent insurance subsidiaries from moving large amounts of cash to the unregulated holding company.

3.2.2 Current capital position

The capital position of Citizens is summarised in the table below as per the US GAAP financials:

US GAAP Balance Sheet $'000	31 December 2019	31 December 2020	31 December 2021	30 June 2022*	31 December 2022**
Total Assets	1,744,936	1,843,420	1,854,511	1,618,945	1,569,970
Total Liabilities	1,485,100	1,542,475	1,533,940	1,542,706	1,568,927
Total stockholders' equity	**259,836**	**300,945**	**320,571**	**76,239**	**1,043**
Adjusted book value					
Total stockholders' equity	259,836	300,945	320,571	76,239	1,043
Accumulated other comprehensive income (AOCI)	77,117	128,255	117,492	(122,948)	(195,279)
Total stockholders' equity, excluding AOCI	182,719	172,690	203,079	199,187	196,322

** Unaudited*
*** Unaudited preliminary results which may be subject to change*

As of 30 June 2022, Citizens has total stockholders' equity position of $76m, further decreasing to $1m at 31 December 2022. The stockholders' equity position is quite sensitive to interest rate fluctuations. The decrease in surplus compared to $320.6m in December 2021 is predominantly driven by a substantial increase in interest rates which rose significantly in 2022. Long duration fixed maturity securities were particularly impacted by the rising rates in 2022. Because Citizens' asset and liability duration matching policy, the vast majority of their total investments are invested in longer-term fixed maturity securities, and they reported a pre-tax net unrealized loss on our available-for-sale securities at 31 December 2022. The credit ratings and default risk of their fixed maturity securities were not significantly impacted by the rise in interest rates and volatility in 2022 and because they intend to hold the long-term investments to maturity, they do not believe that the unrealized loss is indicative of their financial strength. These considerations equally apply to CICA Bermuda and will equally apply to CICA PR.

As can be seen from the section that follows, there is a strong possibility that the US GAAP stockholders' equity position can deteriorate further if interest rates continue to increase. This can put additional pressure on the Citizens' balance sheet but does not affect its ability to provide additional capital to subsidiaries. As mentioned in section 5.6.3 of the report, Citizens does have the option to use credit facilities or make further share issues to raise capital if required.

3.2.3 Projected capital position

I have been provided with analysis that shows the projected capital position for Citizens from year-end 2022 onwards, showing a growing shareholder equity position. The analysis also shows the negative impact of AOCI through market movements on the figures, which highlights a more stable position when these AOCI effects are removed. The level of unrealised losses on the portfolio are expected to reduce over time as these bonds approach maturity and revert to par.

I note that the projected capital position is inclusive of Citizens' business plan and strategic goals, which relate to sales, retention, financial performance and execution (products launches, pricing, key projects etc) through effective project management and organisational efficiency. I also note that while the projected figures presented above are consistent with Citizens' business plan, they have been adjusted to reflect the current economic environment and stockholders' equity position at 31 December 2022. More details of the assumptions underlying the financial projections (as provided by Citizens) can be found in Appendix 10.

In terms of the reasonableness of the above projections, the fall in AOCI over the projection period is representative of Citizen's view of how interest rates will evolve over time which they expect to fall. The downward sloping curves (as published by the BMA) suggest that this is a reasonable assumption. Thus, the fall in AOCI is reflective of unrealised losses reducing as interest rates reduce which translate through to an increase in total stockholders' equity (including AOCI). In addition, the long duration (70%-75% have a duration of 10 years or more) of Citizens' fixed income securities makes the level of AOCI highly sensitive to interest rate reductions and the quantum of the reductions does not appear unreasonable.

Total stockholders' equity, excluding AOCI is a key metric and representative of the longer term value of the CICA Bermuda assuming the fixed income securities are valued at amortized cost. Total stockholders' equity, excluding AOCI remains relatively stable over the projection period. In aggregate, the change in the balances represents a reallocation between total stockholders' equity and AOCI and the total stockholders' equity, which is a reasonable assumption.

3.3 Financial Profile

3.3.1 Current financial position

In order to form an overall opinion on the effect on the financial health of the transferring policyholders I have further considered Citizens' financial position at 31 December 2022.

In terms of the ability of Citizens to provide the necessary support, Citizens holds separately fixed maturity securities, equities, other invested assets and cash available for capital management. I understand from Citizens' management that there are no restrictions on the use of these funds, although Citizens' Board of Directors approval would be required for a capital injection to be performed. The fixed maturities securities are invested in shorter term assets that can be easily liquidated and around 60% of the portfolio has a duration of less than 5 years. At 31 December 2022, the fixed maturity securities market value on the Citizens balance sheet was $28.6m with 100% invested in investment grade securities at December 2022, and thus the risk of default on these assets can be considered to be relatively low. The Company reported a pre-tax net unrealized loss on its available-for-sale securities $0.8m at 31 December 2022. The tables below show a high-level view of Citizens historic balance sheet positions from 31 December 2020 to 31 December 2022.

US GAAP Balance Sheet $'000	Dec-20	Dec-21	Dec-22**
Investment in subsidiaries*	231,992	271,639	(38,524)
Fixed maturity securities available-for-sale, at fair value	42,202	33,724	28,566
Equity securities, at fair value	1,347	1,466	770
Mortgage loans on real estate	-	1,000	-
Real estate held-for-sale	2,571	-	-
Other long-term investments	8,790	-	-
Short-term investments	-	-	1,241
Cash	3,102	3,399	2,163
Accrued investment income	471	439	342
Accounts receivable from subsidiaries*	4,911	5,832	5,126
Property and equipment, net	12,666	11,564	10,387
Other assets	3,183	3,049	1,715
Total Assets	**311,235**	**332,112**	**11,786**
Accrued expense and other liabilities	10,290	11,541	10,743

US GAAP Balance Sheet $'000	Dec-20	Dec-21	Dec-22**
Total Liabilities	**10,290**	**11,541**	**10,743**
Common Stock – Class A	262,869	265,561	268,147
Common Stock – Class B	3,184	3,184	3,184
Accumulated Deficit	(82,352)	(45,565)	(52,203)
Unrealized investment gains (losses) on securities held by parent and subsidiaries, net of tax	128,255	117,492	(195,279)
Treasury stock	(11,011)	(20,101)	(22,806)
Total Stockholders' Equity	**300,945**	**320,571**	**1,043**
Total Liabilities and Stockholders' Equity	**311,235**	**332,112**	**11,786**

** Citizens, Inc's investments in consolidated subsidiaries are stated at cost plus equity in undistributed income of consolidated subsidiaries. The Company includes in its Statement of Operations and Comprehensive Income (Loss) dividends from its subsidiaries and equity in income (loss) of consolidated subsidiaries, which represents the net income(loss) of each of its wholly-owned subsidiaries.*

*** Unaudited preliminary results which may be subject to change*

In order to form an overall opinion on the effect on the financial health of the transferring policyholders, additionally I have considered the consolidated US GAAP financial position of Citizens. The tables below show a high-level view of Citizens' consolidated historic financial position from 31 December 2019 to 31 December 2022.

US GAAP Balance Sheet $'000	Dec-19	Dec-20	Dec-21	Jun-22*	Dec-22**
Cash and Cash Equivalents	46,205	34,131	27,294	22,407	22,973
Total Investments	1,480,254	1,624,668	1,623,167	1,394,303	1,340,781
Reinsurance recoverable	3,696	5,753	5,539	3,426	4,560
Deferred policy acquisition costs	149,249	104,913	140,380	140,713	140,167
Other Assets	65,532	73,955	58,131	58,096	61,489
Total Assets	**1,744,936**	**1,843,420**	**1,854,511**	**1,618,945**	**1,569,970**
Life insurance	1,218,757	1,246,423	1,278,987	1,293,464	1,305,506
Annuities	76,380	78,304	83,918	88,760	91,234
Accident and health	1,031	761	784	745	767
Dividend accumulations	29,211	33,336	37,760	39,622	41,663
Premiums paid in advance	43,102	40,605	40,690	39,636	36,384
Policy claims payable	8,059	13,206	14,590	8,475	9,884
Other policyholders' funds	18,192	22,447	30,690	35,426	40,497
Policyholder Liabilities	**1,394,732**	**1,435,082**	**1,487,419**	**1,506,128**	**1,525,935**
Other Liabilities	90,368	107,393	46,521	36,578	42,992
Total Liabilities	**1,485,100**	**1,542,475**	**1,533,940**	**1,542,706**	**1,568,927**
Total Stockholders' Equity	**259,836**	**300,945**	**320,571**	**76,239**	**1,043**

** Unaudited*

*** Unaudited preliminary results which may be subject to change*

I also note the above Total Stockholders' Equity figures for Citizens are heavily distorted by the AOCI on the subsidiary balance sheets. For Citizens, the relatively small equity position at 31 December 2022 is a function of fair value accounting required under U.S. GAAP and doesn't consider the cash and available invested assets, which are readily available to provide financial support to the subsidiaries if required.

From a US GAAP stockholder's equity perspective, the impact of Long Duration Targeted Improvements ("LDTI") (see Section 4.3.2 for further details) is expected to be positive for Citizens due to lower reserves and higher DAC (due to a slower amortisation profile), although the exact impact has not been calculated by Citizens for the purposes of the above analysis and will not be calculated until LDTI is required to be reported by Citizens for the quarter ending 31 March 2023. However, the impacts outlined in Section 4.3.2 give some indication of the likely impact of LDTI given the materiality of CICA Bermuda to the overall consolidated Citizens balance sheet.

The inclusion of the other consolidated international entities would further increase the impact of LDTI over those impacts set out for CICA Bermuda in Section 4.3.2.

US GAAP Income Statement $'000	Dec-19	Dec-20	Dec-21	Jun-22*	Dec-22**
Premium revenues	184,347	175,329	174,728	81,588	173,714
Net investment income	64,780	61,699	72,486	25,781	55,134
Other income	1,418	1,828	3,332	1,722	3,675
Total Revenue	**250,545**	**238,856**	**250,546**	**109,091**	**232,523**
Insurance benefits	154,579	156,655	162,359	74,346	155,588
Other general expenses	48,440	53,669	43,370	16,597	45,161
Other benefits and expenses	41,781	40,849	51,505	22,751	38,841
Total benefits and expenses	**244,800**	**251,173**	**257,234**	**113,694**	**239,590**
Federal taxes expense (benefit)	7,115	(1,329)	(43,475)	278	(429)
Net Income (loss) after taxes	**(1,370)**	**(10,988)**	**36,787**	**(4,881)**	**(6,638)**

** Unaudited*
*** Unaudited preliminary results which may be subject to change*

Citizens' US GAAP profitability has been variable over the last 4 years. The 2022 YTD US GAAP net loss is primarily attributable to investment related losses associated with the overall market volatility. During 2021, the US GAAP net income was primarily driven by a federal income tax benefit from the release of most of an uncertain tax position related to the treatment of tax reserves pursuant to IRS code Section 807, as well as investment related gains, somewhat offset by write-off of goodwill. During 2020 the net loss was primarily driven by higher general expenses related to executive severance costs and professional fees incurred in connection with the change in control of Citizens. It should be noted that on a non-US GAAP basis, excluding investment related losses, Citizens net income before federal income tax was $3.0 million in 2022.

3.3.2 Reserving basis

Citizens determines its required reserves in line with US GAAP requirements as consolidated from its subsidiaries. Assumptions are set more prudently on this basis, with margins being added to best estimate assumptions. These are then released over time as actual experience emerges.US GAAP requires assumptions to be locked in. Assumptions are unlocked only in the event of profitability issues.

3.4 Investment Profile

3.4.1 Nature of assets

Citizens' cash and invested assets at 30 June 2022 were $1.4 billion, of which 87.4% was invested in fixed maturity securities, all of which are classified as available-for-sale. The corresponding position at 31 December 2022 was $1.4 billion, of which 87% was invested in fixed maturity securities, all of which are classified as available-for-sale. Citizens closely monitor the duration of their fixed maturity investments, and investment purchases and sales are executed with the objective of having adequate funds available to satisfy their insurance obligations.

The following table shows the carrying value of Citizens' investments by investment category:

Asset Type	Dec-19	Dec-20	Dec-21	Jun-22*	Dec-22**
Fixed maturity securities	90%	90%	89%	87%	87%
Equity securities	1%	1%	1%	1%	1%
Policy loans	5%	5%	5%	5%	6%

Asset Type	Dec-19	Dec-20	Dec-21	Jun-22*	Dec-22**
Other long term investments	0%	2%	4%	5%	5%
Cash and cash equivalents	3%	2%	2%	2%	2%

** Unaudited*
*** Unaudited preliminary results which may be subject to change*

3.4.2 Investment management

Citizens' investment management is performed by Wellington, a company founded in 1928 with over $1 trillion assets under management. Authority and review of Citizens' investments ultimately reside with the board of directors. I have further considered the investment policy of Citizens and am satisfied that a robust investment management process is currently followed. I note the overall investment philosophy is structured around the following primary objectives:

- Preserve purchasing power. The portfolio's rate of return should exceed the rate of inflation and the minimum guarantees in Citizens' insurance contracts, subject to adverse market-driven deviations.
- Maintain safety of principal. Portfolio investments shall be made in safe, quality securities and the overall portfolio holdings should limit adverse or exceptional market fluctuations.
- Preserve liquidity. A preference will be given to securities that can be liquidated with minimal loss in value, as needed, to meet operating requirements.
- Enhance returns. Positive after-tax returns should contribute to Citizens' long-term financial strength and increase surplus or retained earnings.

3.5 Reinsurance

Citizens follow the industry practice of reinsuring a portion of their insurance risks with unaffiliated reinsurers. Citizens participate in reinsurance activities in order to minimize exposure to significant risks, limit losses, and provide additional capacity for future growth. They enter into various agreements with reinsurers that cover individual risks primarily on a yearly renewable term basis.

For the majority of their life insurance business, they retain the first $100,000 of risk on any one life and reinsure the remainder of the risk. Therefore, under the terms of the reinsurance agreements, the reinsurers agree to reimburse Citizens for the ceded amount (i.e., the death benefit amount less Citizens' retained risk) in the event a claim is paid. Cessions under reinsurance agreements do not discharge Citizens' obligations as the primary insurer. In the event reinsurers do not meet their obligations under the terms of the reinsurance agreements, reinsurance recoverable balances could become uncollectible.

Citizens focus on obtaining reinsurance from a diverse group of well-established reinsurers and regularly evaluate the financial condition of their reinsurers and monitor concentration risk with their reinsurers. The credit ratings of the reinsurers used by Citizens' all have AM Best ratings of A or A+.

3.6 Risk Profile and Management

3.6.1 Overview of risks

Citizens is exposed to a range of risks, which it separates by nature, and manages through a systematic risk management approach.

Annually, Citizens work to identify and provide an assessment of key material risks. This process provides members of the board and senior management support to carry out their responsibilities related to risk management, including the establishment of appropriate risk appetite levels in the various areas of operations and the appropriate targeted level of capital for company operations.

The major risks associated with the COVID-19 pandemic as identified by Citizens are as follows:

- A higher level of claims due to COVID-19 deaths;
- Decreased premium revenue due to disruption to their workforce or distribution channel resulting from required isolation, travel limitations and business restrictions;
- Higher surrenders and lapses due to cash needs their policyholders may have due to concerns over COVID-19 economic impacts, particularly in their international business; and
- Volatility in their investment portfolio due to market disruptions caused by COVID-19 related concerns such as inflation.

3.6.2 Risk management framework

Effective risk oversight is an important priority for the board. Citizens' enterprise risk management ("ERM") function identifies and manages Citizens' key risks. The process starts with their executive management team, who identifies key strategic, financial and operational risks to Citizens and its subsidiaries (collectively, the "Enterprise Risks") and manages the Enterprise Risks on a day-to-day basis.

On a quarterly basis, the management team reviews and discusses the Enterprise Risks with Citizens' audit committee ("Audit Committee"), whose charter gives it oversight of the guidelines and policies that govern the ERM process. Although risk oversight is conducted primarily through the Audit Committee, other committees of the board have responsibility (e.g., the compensation committee for compensation risk) and the full board has responsibility for general oversight of the ERM process and Enterprise Risks. The board satisfies this responsibility through full reports by each committee chair regarding the committees' considerations and actions, as well as through regular reports directly from executive officers responsible for oversight of particular Enterprise Risks within Citizens and its subsidiaries.

3.6.3 Governance

Citizens' business affairs are conducted under the direction of its Board of Directors. Select officers and employees regularly attend board meetings to present information on the business and strategy, and board members have access to the officers and employees outside of board meetings. To promote open discussion, the independent directors hold regularly scheduled executive sessions without management present. These sessions allow the independent directors to review key decisions and discuss matters in a manner independent of management.

To assist it in carrying out its duties, the board has delegated certain authority to five separately designated standing committees shown in the table below along with the number of meetings held in 2021. All committees are chaired by and consist entirely of independent directors. The committee chairs review and approve agendas for all meetings of their respective committees. I note that no specific risk committee exists, even though governance structures observed within industry often have a separate committee in place. I understand risk related items to be absorbed within the existing committee framework.

	Audit Committee *4 meetings*	Compensation Committee *12 meetings*	Investment Committee *4 meetings*	Nominating and Corporate Governance Committee *6 meetings*	Executive Committee *Met by UWC*
Christopher W. Claus		•	🪑		•
Cynthia H. Davis				•	
Jerry D. Davis, Jr.		•	•		🪑
Dr. E. Dean Gage				•	•
Francis A. Keating II				🪑	
Dr. Terry S. Maness	🪑				
J. Keith Morgan			•		
Gerald W. Shields (CEO)					
Dr. Robert B. Sloan, Jr.	•	🪑		•	•
Mary Taylor	•				

The section below provides a governance summary of Citizens' governance practices:

Highly Independent and Diverse Board	○ The CEO is the only non-independent director ○ Citizens elected two women to the Board in 2021 and 2022 ○ All board committees are composed entirely of independent directors ○ Citizens have adopted a heightened standard of director independence - an independent director may only receive up to $25,000 in consulting fees or other income from Citizens outside of board compensation ○ Independent directors hold executive sessions at least three times per year without management present ○ Directors bring a wide array of qualifications, skills and attributes to the board
Independent Board Chair	○ Independent board chair structure provides effective checks and balances to ensure the exercise of independent judgment by the board
Board Refreshment	○ 3 of the 9 directors were first elected in 2021 ○ 7 of the 9 directors have been elected in the past 5 years ○ Mandatory retirement age at 75 (any director as of June 1, 2022 grandfathered to age 80) ○ 12-year term limit (policy effective June 2022)
Director Accountability	○ Over 75% average director attendance rate at board and committee meetings in 2021 ○ Comprehensive orientation for three new directors in 2021 ○ Annual board and committee self-evaluations and starting in 2022, individual director assessments

Shareholder Voting Rights	○ Holders of the Class A common stock in the share capital of Citizens elect all directors annually (no staggered board; no dual classes of outstanding voting stock)
Executive Compensation Practices	○ Citizens has an annual “say on pay” advisory vote. Stock ownership guidelines
No Hedging or Pledging Company Stock	○ Directors and officers are prohibited from entering into hedging transactions or pledging Citizens’ securities
ERM and ESG	○ The board and Audit Committee oversee ERM program and environmental, social and governance (“ESG”) matters
NYSE Listing Standards	○ As of the date of the proxy statement for the 2022 annual shareholders meeting, Citizens was in compliance with all applicable NYSE listing standards

3.7 Operational Arrangements

Most of Citizens’ operations are based at their corporate headquarters in Austin, Texas. At the Bermuda office, CICA Bermuda performs underwriting, policy issuance, claims processing, accounting and reporting related to its policies. CICA PR intends to perform these functions either in Austin, Texas, or as required under the trade or business rules promulgated by the U.S. Internal Revenue Service related to effectively connected income, in Puerto Rico, or in another location outside of the United States.

Citizens has a single integrated information technology system for their entire group, which is a centrally-controlled, mainframe-based administrative system. Functions of their policy administrative system include policy set-up, administration, billing and collections, commission calculation, valuation, automated data edits, storage backup, image management and other related functions. Each operating company and block of business they have acquired has been converted onto their administrative system. This system has been in place for more than 30 years and has been updated on an ongoing basis as technology has evolved.

3.8 Complaints and Litigation

Citizens has one material pending lawsuit open. The ‘Trade Secret Lawsuit’ was filed by Citizens, as plaintiff, in November 2018 to the District Court of Travis County, Texas against a number of individuals that founded a business on the exploitation and Citizens’ trade secrets and goodwill. The outcome of the court case is however not expected to be material to the Transfer or have any negative impact on the policyholders.

3.9 Other Regulatory Matters

I understand that there are no specific or material issues with respect to Citizens regular obligations to and engagements with the Regulators.

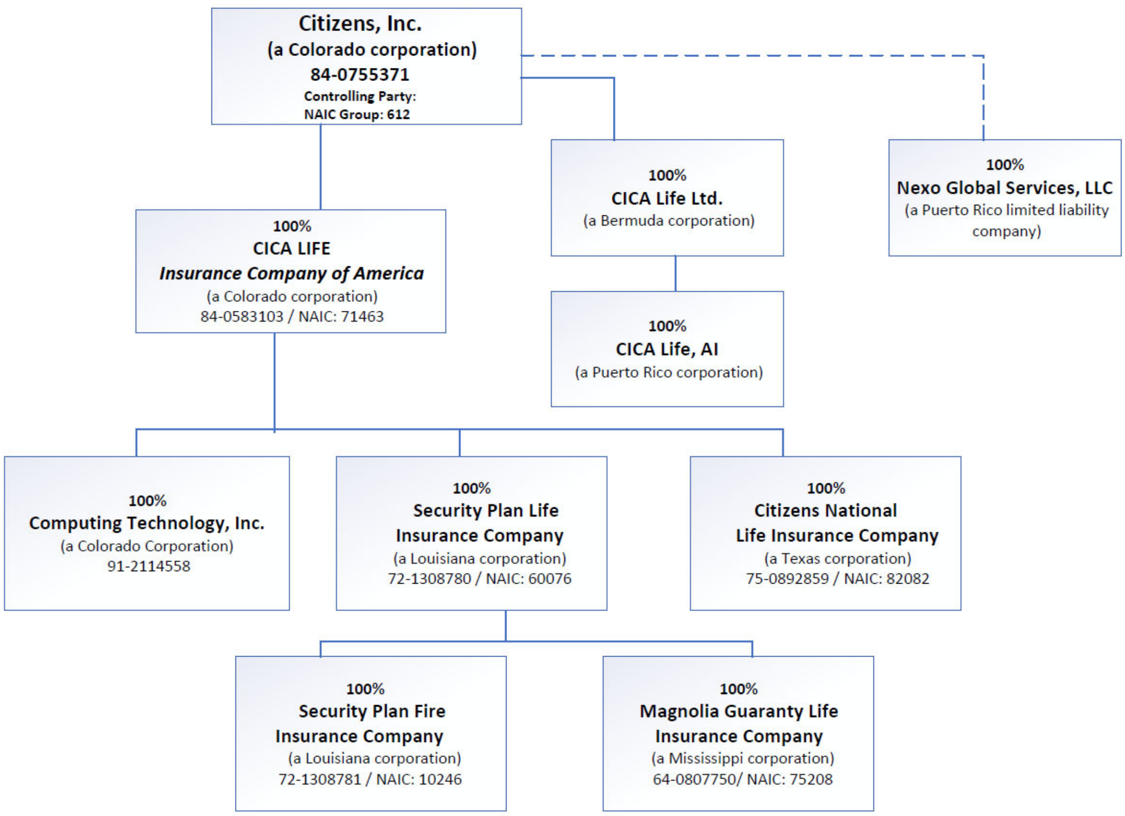
KPMG

4 Transferor: CICA Bermuda (Bermuda)

4.1 Overview

4.1.1 Structure

CICA Bermuda, which was established in Bermuda at 27 February 2018 as a Long Term Class E licence-holder, is a wholly owned subsidiary of Citizens. Class E (re)insurers are defined as entities with assets more than $500m. As reflected in Section 3, Citizens is a Colorado insurance holding company subject to the Colorado holding company regulatory and reporting requirements of both the Colorado Division of Insurance and the U.S. Securities and Exchange Commission. As 31 December 2022, Citizens structure was as follows.



The intention is that once the Effective Date has occurred, that CICA Bermuda will seek to surrender its license to the BMA. The regulatory minimum paid up share capital of $250k is expected to remain in CICA Bermuda to support the minimum paid up share capital requirements until CICA Bermuda has surrendered it license to the BMA, after which CICA Bermuda may seek to voluntarily liquidate distributing any capital and surplus assets to its shareholder.

4.1.2 History and background

CICA Bermuda is a direct subsidiary of Citizens and was capitalized by Citizens. Business was transferred by way of an assumption reinsurance agreement from CICA America (Citizens' largest insurance company in the US) to CICA Bermuda in 2018. The international life insurance business in CICA Bermuda was the book of business included in the assumption reinsurance agreement and new business written since such date. Although it is anticipated that CICA Bermuda's business model and strategic plans are self-supporting of its capital and solvency position, CICA Bermuda has the parental support of Citizens.

CICA Bermuda's focus is on direct sales of US Dollar-denominated ordinary whole life insurance and endowment policies to residents in Latin America and the Pacific Rim. Prior to the formation and novation of the international block of business to CICA Bermuda, CICA Life America successfully participated in the foreign marketplace since 1975 in direct marketing to individuals residing in its target markets. Due to CICA America's historical and proven success selling directly to residents of foreign countries, CICA Bermuda operates in a similar fashion.

CICA Bermuda sells its policies to residents of foreign countries using foreign independent marketing firms and independent consultants. These independent marketing firms and consultants specialize in marketing life insurance products and generally have several years of insurance marketing experience. CICA Bermuda maintains contracts with the independent marketing firms pursuant to which the marketing firms will provide recruitment, training and supervision of their managers and associates in the service and placement of CICA Bermuda's products; however, all associates of these firms will also contract directly with CICA Bermuda as independent contractors and receive their compensation directly from CICA Bermuda.

CICA Bermuda has disciplined underwriting criteria, which include medical reviews of applicants as well as background and reference checks. In addition, CICA Bermuda utilizes a claims policy that requires investigation of substantially all death claims. CICA Bermuda addresses risks associated with the potential application of foreign laws to its sales of insurance policies in its foreign markets by, among other things, not locating any offices or assets in foreign countries, selling policies directly to citizens of those countries and administering them only through independent consultants rather than its own employees, requiring that all applications for insurance be submitted to and accepted only in its offices located in Bermuda, and requiring that policy premiums be paid in US Dollars.

Citizens, through CICA America, novated its entire block of international policies to Bermuda on 1 July 2018 and began writing new business out of CICA Bermuda at that time. However, Citizens had been operating in this international market for 40 years. CICA Bermuda's parent, Citizens (a SEC registrant), is also subject to compliance with the Sarbanes-Oxley Act requiring review and testing of operational risks and internal controls each year and goes through an external audit yearly.

Although CICA Bermuda was not under BMA regulation until 2018, the operations were run under a governance and risk management system (Sarbanes-Oxley Act) consistent with requirements in Bermuda. CICA Bermuda's operations moved to Bermuda in 2018 and its governance and risk management system were developed in Bermuda following the Bermuda Insurance Code of Conduct. CICA Bermuda has built a robust corporate governance and ERM program in Bermuda which is contained in the CICA Bermuda governance manual ("Governance Manual"), sections of which are included in its Commercial Insurer's Solvency Self-Assessment ("CISSA")). The Governance Manual is updated semi-annually and approved by the board of directors of CICA Bermuda annually.

The Governance Manual is CICA Bermuda's primary guidance on their corporate governance program, ERM program including risk register, key policies and procedures and their internal control processes.

4.1.3 Nature of business written

CICA Bermuda sells traditional life insurance products on an international basis through independent marketing consultants. Premium income from non-U.S. residents accounts for approximately 95% of the total direct premium collected with split by country shown in the table below:

Collected Premium by Country $'000	December 2020	December 2021	June 2022*	December 2022**
COLOMBIA	26,035	26,251	12,824	27,304
VENEZUELA	20,150	18,325	8,183	17,084
TAIWAN	19,263	21,739	9,711	20,497
ECUADOR	13,430	13,388	6,146	13,099
ARGENTINA	9,264	9,410	4,491	9,351
Other Non-US	39,373	41,407	19,546	39,994
Total	**127,516**	**130,520**	**60,901**	**127,329**

** Unaudited*
*** Unaudited preliminary results which may be subject to change*

The overall reserves in respect of this business are split across risk types, with the most material exposure relating to mortality risk.

The following are the key features of the traditional life business:

- **Fees**: Total premium collected consist of per unit charges (variable amount based on benefit size) plus a policy fee. The majority of products have a policy fee associated with the basic coverage.
- **Commission**: The commissions paid to associates are based on a hierarchy system consisting of 8 levels. There are several commission structures, varying by product.
- **Annuity Rider Benefit:** Policyholders may elect to add an annuity rider to the base coverage.
- **Other Optional Product Features**: There are several optional product features that have guaranteed interest rates.
- **Annual Premium Benefit:** The policyholder also has the option to apply a portion of their premium as an "Annual Premium Benefit". Annual Premium Benefits will be credited to the policy upon payment of each annual premium, in an amount equal to the premium paid for this benefit less an administration fee. The Annual Premium Benefits may be credited to the policy under several options.
- **Multiple Supplemental Benefits** are available to the policyholders. The benefits include but are not limited to waiver of premium, accidental death, accidental death and dismemberment, triple indemnity, beneficiary accidental death, payor death and payor disability, etc. These are treated as supplemental benefits, not riders. They are attached to the base coverage and any applicable rider.
- **Death/ Surrender/ Maturity Benefits:** The proceeds of a policy payable upon death, surrender, or maturity as an endowment may be made through a periodic payment settlement option instead of a lump sum.
- **Dividends:** Dividends are not guaranteed. They are declared annually by the board of directors. The dividend may be applied in accordance with policy provisions. Most commonly, dividends may be paid in cash to the policy owner, credited towards the payment of premium, left on deposit to accumulate at interest, applied to purchase a paid-up addition, or be assigned to a third party.

4.2 Solvency Profile

4.2.1 Solvency reporting requirements

CICA Bermuda is regulated by the BMA in line with the regulatory framework set out in Appendix 4.

The Bermuda regulatory framework is built upon the quantitative, qualitative, and supervisory pillars. The regime is a risk-based one and was enhanced in the past few years so as to achieve equivalence with the European Solvency II framework. On 26 November 2015, the European Commission granted full equivalence to the BMA.

Under the BMA's regime, CICA Bermuda is expected to comply with the following:

- Submission of the Bermuda solvency capital requirement ("BSCR")
- Submission of the Bermuda Economic Balance Sheet ("EBS")
- Submission of the CISSA
- Submission and disclosure of the "Financial Condition Report"
- Submission of the Condensed GAAP and Bermuda statutory financial statements
- Adherence to other Bermuda requirements

4.2.2 Current solvency position

Under the BMA's EBS basis, all assets and liabilities are to be fair valued under the BMA's EBS valuation hierarchy. In particular, all technical provisions must be valued under the EBS technical provision framework, which is an economic approach. Some key components of the EBS technical provision framework include:

- Adopting a best estimate approach where liabilities are valued at an economic value using the best estimate of probability-weighted cash flows, without addition of prudence.
- An explicit calculation of risk margin.
- Required use of stochastic methods for valuation of material and complex options and guarantees.
- Discounting using a risk-free discount curve with limited adjustments to reflect risk characteristics of liabilities. CICA Bermuda uses the relevant rates as published by the BMA in the calculation of the technical provisions.
- Explicitly accounting for expenses in the cash flow model.

The regulatory position of CICA Bermuda is summarised in the table below:

Economic Balance Sheet $'000	December 2019	December 2020	December 2021	June 2022*	September 2022*
Total EBS Assets	1,008,204	1,115,348	1,140,806	986,592	935,201
Total EBS Liabilities	933,117	1,023,758	1,037,331	905,062	872,889
Total Statutory Surplus and Capital	**75,087**	**91,590**	**103,475**	**81,530**	**62,312**

** Unaudited*

Capital Requirement $'000	December 2019	December 2020	December 2021	June 2022*	September 2022*
Final Transitional BSCR	**40,295**	**34,245**	**41,248**	**35,421**	**30,836**
Own funds	75,087	91,590	103,475	81,530	62,312
Transition Enhanced Capital Requirement Ratio	**186%**	**267%**	**251%**	**230%**	**202%**

** Unaudited*

The capital required under the BMA assessment involves the application of a number of factor-based stresses to the balance sheet. These drive a capital requirement at 30 June 2022 of $35.4m (30 September 2022 $30.9m) for CICA Bermuda. As part of the capital requirements as per the BMA regime, a minimum margin of solvency also needs to be met.

4.2.3 Projected solvency position

The base case business plan has been modelled (as at 31 December 2021) on a EBS basis including the BSCR requirements over a 3-year planning horizon.

At 30 June 2022, the coverage ratio was 230% (Own Funds / BSCR = $81.5m / $35.4m) driven by market movement and the rising interest rate environment. The corresponding figure at 30 September 2022 was 175% (Own Funds / BSCR = $55.2m / $31.6m). Thus, while the solvency projections do not allow for the current solvency position, they do provide an indication as to the relative stability of the solvency ratio over time that would manifest itself in a stable market and interest rate environment.

4.3 Financial Profile

4.3.1 Current financial position

In order to form an overall opinion on the financial health of the transferring policyholders, I have further considered the financial position of CICA Bermuda. The table below shows a comparison between CICA Bermuda's Economic and US GAAP (which is how CICA gets consolidated for Group reporting purposes) balance sheets from 31 December 2019 to 31 December 2022.

Capital Requirement $'000	31 December 2019	31 December 2020	31 December 2021	30 June 2022*	30 September 2022*
EBS Assets	1,008,204	1,115,348	1,140,806	986,592	935,201
US GAAP Assets	1,116,683	1,215,823	1,236,045	1,080,962	1,028,924
Asset Difference	(108,479)	(100,475)	(95,239)	(94,370)	(93,723)
EBS Liabilities	933,117	1,023,758	1,037,331	905,062	872,889
US GAAP Liabilities	1,022,360	1,057,376	1,094,114	1,113,212	1,124,504
Liability Difference	(89,243)	(33,618)	(56,783)	(208,150)	(251,615)
EBS Shareholder equity	**75,087**	**91,590**	**103,475**	**81,530**	**62,312**
US GAAP shareholder equity	**94,323**	**158,447**	**141,931**	**(32,251)**	**(95,580)**

** Unaudited*

Adjusted book value $'000	31 December 2019	31 December 2020	31 December 2021	30 June 2022*	31 December 2022**
Adjusted book value					
US GAAP shareholder equity	94,323	158,447	141,931	(32,251)	(83,995)
Accumulated other comprehensive income (AOCI)	50,322	105,545	79,105	(93,709)	(145,796)
Total stockholders' equity, excluding AOCI	44,001	52,902	62,826	61,458	61,801

** Unaudited*
*** Unaudited preliminary results which may be subject to change*

US GAAP Income Statement $'000	31 December 2019	31 December 2020	31 December 2021	30 June 2022*	31 December 2022**
Gross Premiums	134,747	127,529	123,898	55,863	122,945
Premiums Ceded	(1,839)	(2,120)	(1,671)	(836)	(1,791)
Net Income	132,908	125,409	122,227	55,027	121,154
Claims	(65,762)	(78,043)	(76,778)	(41,319)	(79,192)
Commission	(19,360)	(17,465)	(18,114)	(8,356)	(19,520)
Other Expenses	(41,464)	(37,823)	(35,577)	(11,998)	(37,064)
Increase in Policy Reserves	(38,345)	(24,878)	(28,666)	(12,009)	(22,388)
Investment Income	39,016	40,365	41,754	21,528	44,758
Investment Related Gains (Losses), Net	656	1,435	9,183	(4,240)	(8,722)
Net Outgo	(125,259)	(116,409)	(108,198)	(56,394)	(122,178)
Net Profit (Loss)	7,649	9,000	14,029	(1,367)	(1,024)

** Unaudited*
*** Unaudited preliminary results which may be subject to change*

CICA Bermuda's profitability had been growing over the last three full financial periods i.e. $7.6m (2019), $9.0m (2020) and $14.0m (2021). I do note as at 30 June 2022, half way through the current financial year, a net loss of $1.4m was reported. At 31 December 2022, a net loss of $1.0m was reported. This is predominantly driven by non-cash investment related losses for the financial year to date.

4.3.2 Long Duration Targeted Improvements ("LDTI")

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-12, Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts. This ASU amends four key areas of the accounting and impacts disclosures for long-duration insurance and investment contracts:

- **Requires updated assumptions for liability measurement.** Assumptions used to measure the liability for traditional insurance contracts, which are typically determined at contract inception, will now be reviewed at least annually, and, if there is a change, updated, with the effect recorded in net income;
- **Standardizes the liability discount rate.** The liability discount rate will be a market-observable discount rate (upper-medium grade fixed-income instrument yield), with the effect of rate changes recorded in other comprehensive income;

- **Provides greater consistency in measurement of market risk benefits.** The two previous measurement models have been reduced to one measurement model (fair value), resulting in greater uniformity across similar market-based benefits and better alignment with the fair value measurement of derivatives used to hedge capital market risk;
- **Simplifies amortization of deferred acquisition costs ("DAC").** Previous earnings-based amortization methods have been replaced with a more level amortization basis; and
- **Requires enhanced disclosures.** The new disclosures include roll-forwards and information about significant assumptions and the effects of changes in those assumptions.

CICA Bermuda have estimated the impact of LDTI at 30 June 2022 and 31 December 2022 to be positive, increasing total stockholders' equity as set out in the table below.

$'000	Reported under current GAAP	LDTI Adjustments		As Reported under LDTI
		Reserves	DAC	
30 June 2022				
Total stockholders' equity	(32,251)	30,481	13,978	12,208
Accumulated other comprehensive income (AOCI)	(93,709)	5,620		(88,089)
Total stockholders' equity, excluding AOCI	61,458	24,861	13,978	100,297
31 December 2022				
Total stockholders' equity	(83,995)	82,445	17,733	16,183
Accumulated other comprehensive income (AOCI)	(145,796)	47,537		(98,259)
Total stockholders' equity, excluding AOCI	61,801	34,908	17,733	114,442

The adjustments result in an increase in retained earnings from net income improvements, driven by:

- **Policyholder liabilities:** The unlocking of cash-flow assumptions, including the removal of PADs, results in a faster recognition of income under LDTI relative to legacy US GAAP.
- **Deferred Acquisition Costs:** DAC will amortize more slowly under LDTI relative to legacy US GAAP primarily due to the presence of limited payment traditional contracts, which use premiums to amortize DAC under legacy GAAP.

I note that under LDTI, business is considered at a cohort year level for each contract grouping. For each cohort reserve balances accrue interest at the original discount rate for ordinary income, and other comprehensive income (OCI) captures the impact of changes to the prevailing discount rate in the period. Accumulated other comprehensive income (AOCI) captures reserve balance impacts from using the original discount rate versus the current discount rate on the balance sheet. The adjustments made under LDTI represent a material change to how the underlying figures are prepared and disclosed, and the analysis is performed at a cohort level where the balance sheet impact depends on the level of interest rates when the contracts incepted relative to current prevailing rates. Notwithstanding, I note that where current prevailing interest rates exceed those at contract inception, as is the case for CICA Bermuda, that the impact of LDTI is expected to be beneficial to CICA Bermuda since reserves are expected to fall, which results in an increase to total stockholders' equity. Where current prevailing interest rates are lower than those at contract inception the opposite is expected to happen.

I note that an independent review was undertaken into the model functionality used in CICA Bermuda's AXIS model in relation to LDTI and that the review determined that the model was structurally clean.

I also note that CICA Bermuda are in the process of having an external review of their LDTI adjustments by a global actuarial consultancy. The scope of the review includes:

- Review the company level LDTI roll-forward/disclosure files for the quarters of calendar year 2021 for reasonableness and trends.
- Review policy level cash flows from a randomized selection of cohorts whose reserves in aggregate cover 80% of the LDTI reserves.
- Replication of cohort level reserve calculations for 2 cohorts (largest in-force cohort and one new business cohort) to verify that the present value calculations are done correctly. This was done for the largest in-force cohort and one new business cohort.
- Production of a report summarizing the findings.

I have discussed the approach with the external consultant performing the review and am comfortable with the approach adopted. I note that while DAC was not in scope of the external review, the external consultant reviewed the amortisation patterns which support the DAC calculations and that no issues were noted and that the movement in DAC appeared reasonable to them on that basis. I note that the expectation is that a clean report will be provided by the external consultant confirming that the approach adopted and the quantum of the reserve adjustments are reasonable. While I am comfortable with the approach as outlined to me, I have not undertaken an extensive review of the figures as this was beyond the scope of my Report, and I have relied on the work performed by the external consultant and would expect to be provided with a copy of their report once finalised.

4.3.3 Reserving basis

BMA regulations permit companies to elect their basis of accounting from various accounting regimes. CICA Bermuda uses US GAAP principles for its basis of accounting. For local statutory financial statements, US GAAP is used.

The long-term best estimate cashflows are calculated by Citizens in AXIS, on a policy-by-policy basis using a gross premium valuation approach (i.e. reserves are calculated as the present value of future claims plus future expenses and commissions less present value of future premiums). Best estimate assumptions informed by experience investigations carried out by Citizens are utilised. CICA Bermuda uses the US standard yield curve published by the BMA to discount future cashflows that make up the best estimate reserves. The guidance permits the use of an additional liquidity adjustment to the risk-free rates. Given the asset profile, it is appropriate to use the standard yield curve.

While this is traditional business, there are settlement options. CICA Bermuda's in-force has settlement option guaranteed interest rates. An additional reserve is established on a US GAAP basis in line with SOP 03-1 using best estimate mortality, lapse, and interest rates. This is included in the overall BEL.

4.4 Investment Profile

4.4.1 Nature of assets

The table below provides an overview of the asset types and proportion relative to total assets. CICA Bermuda is focusing in on net income and capital appreciation growth through a diversified portfolio managed using large investment firms' expertise, Blackrock and Wellington.

As illustrated, investment in bonds consists more than 80% of total assets. As at 31 December 2022, 98.5% of fixed maturity investments were rated BBB- or higher with the overall fixed maturity portfolio having an average implied rating of A as per S&P. I note invested assets are a major driver of CICA Bermuda's financial results and as such CICA Bermuda has focused on mitigating the sustained low interest rate environment by making new investments in other assets classes such as limited partnerships to increase yields. The investment in limited partnership investments has resulted in the reallocation of funds (in particular bonds) towards other long-term assets as set out below. The investment in limited partnership investments introduces additional risks to the CICA PR balance sheet. The sensitivity of the CICA PR regulatory balance sheet to these risks and the mitigating actions available to CICA PR and Citizens are considered in Section 5.6.3.

Asset type (% of Portfolio)	31 December 2019	31 December 2020	31 December 2021	30 June 2022*	31 December 2022**
Bonds	88.2%	88.4%	85.2%	82.8%	81.4%
Equities	0.0%	0.9%	0.5%	0.5%	0.7%
Other Long-Term Assets	0.0%	0.0%	4.9%	6.6%	6.7%
Cash	1.9%	1.9%	1.0%	0.8%	1.0%
Policyholder loans	7.0%	6.5%	6.1%	6.9%	7.1%
Accrued investment income	1.1%	0.9%	0.9%	1.1%	1.2%
Reinsurance recoverable	0.3%	0.2%	0.2%	0.3%	0.3%
Recoverables	1.5%	1.3%	1.1%	1.1%	1.1%
Property & Equipment	0.0%	0.0%	0.0%	0.0%	0.0%
Total assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

** Unaudited*
*** Unaudited preliminary results which may be subject to change*

4.4.2 Investment management

CICA Bermuda's investment portfolio is currently managed by Wellington Management.

4.5 Reinsurance

CICA Bermuda entered into an indemnity reinsurance arrangement with a reinsurance pool. Under the agreement, CICA Bermuda cedes the net amount at risk in excess of CICA Bermuda's retention limit of $100,000 on a yearly renewable term ("YRT") basis to the pool. The reinsurance pool, which is managed by Innovative Reinsurance Group (CICA Bermuda's reinsurance broker), is responsible for any losses in excess of $100,000 incurred by CICA Bermuda. Further, the agreement does not contain a) a retrospective recapture, b) a profit-sharing agreement or c) a side agreement, i.e. any constructs that would protect the reinsurer from significant loss in scenarios with highly unfavourable claims. As indicated in all the reinsurance treaties, the current YRT rates are not guaranteed. All reinsurers have the right to increase the current YRT rates based on CICA Bermuda's review and approval. All reinsurance arrangements have zero year 1 premium structures which is equivalent to reinsurers paying CICA Bermuda an initial ceding allowance equal to the first year YRT premium.

4.6 Risk Profile and Management

4.6.1 Overview of risks

CICA Bermuda monitors the operational limits and tolerances on a quarterly basis along with other key performance indicators ("KPIs") to help run the business and to reduce the likelihood of any significant negative developments from an operational risk and/or internal control perspective.

Due to the nature of the business, CICA Bermuda is exposed to similar risks that are observed in other life insurance companies. Given COVID-19, the global impact of the pandemic and changing economic and business activity CICA Bermuda's material risks reviewed and discussed with the board of directors during 2021 are financial in nature. With the risk oversight by management and the mitigation measures mentioned within CICA Bermuda's CISSA, CICA Bermuda has the following material risks:

- Significant increase in US GAAP reserves for long duration targeted improvements – This risk is being mitigated by working closely with consultants to implement LDTI efficiently and effectively and report and disclose the updated LDTI guidance and related effects on Citizen's and CICA Bermuda's financial statements.
- Interest rate fluctuations and the effect on assets, liabilities and equity – Management also tracks movement in US Treasury Rates as a leading indicator of fair value marks on our investment portfolio and as an indication of future Bermuda discount rates, which affect CICA Bermuda's BEL.
- Inaccurate assessment of investments – This risk is reduced with active monitoring and management of our equity and other long-term investment portfolios and frequent discussion and review with portfolio managers.

In relation to the first bullet point above, I note that the risk rating was based on the economic situation prevailing at 31 December 2021. Rising interest rates over 2022 have reduced the impact as reserves have reduced, which has offset somewhat the reduction in fair value of CICA Bermuda's bond portfolio. Further details of the impact of LDTI are set out in Section 4.3.2.

Further details of the key risks identified as part of the 2021 risk assessment are included in Appendix 8.

4.6.2 Risk management framework

The governance and Risk Management System of CICA Bermuda may be described as relying on four cornerstones:

- A governance framework, aligned with CICA Bermuda's strategic objectives, providing top level oversight by the board, clear ownership and accountability for risks, appropriate independence to various risk stakeholders as well as clear escalating and reporting channels.
- A risk management system which, thanks to a clearly defined risk appetite framework, details CICA Bermuda documented risk policies and mitigation measures to meet their strategic initiatives. For each and every risk, day-to-day concrete limits and operational checkpoints as well as functional identification, measurement, mitigation and monitoring processes are documented. This risk management system also explains the various roles and responsibilities of stakeholders holding key functions within the governance framework.
- An internal control system based on a process map, defining the architecture of processes required to manage CICA Bermuda in accordance with its governance and risk management frameworks. Citizens, as a publicly-traded company, must comply with the Sarbanes-Oxley Act, which requires independent review and testing of Citizens' internal control system on a quarterly basis.
- A risk register combining operational and risk management processes to deliver a descriptive set of risk appetites which are representative for a company assuming underwriting risk for the direct sale of endowments and whole life insurance products.

4.6.3 Risk sensitivities

The key aspects of uncertainty on this business are the risk of lower interest rates, lower lapses (due to the lapse supportive nature of the maturity benefits on the endowment business) and higher expenses. A number of different tests were run to demonstrate the sensitivity of the EBS at 31 December 2021 to changes in experience relating to the key assumptions. While the sensitivities have not yet been performed at 31 December 2022, similar risks are likely to apply.

CICA Bermuda is most exposed to widening of credit spreads as EBS own funds would be depleted under this scenario. Further sensitivity analysis can be found in section 5.6.3 regarding exposures on a US GAAP basis.

4.6.4 Governance

The strategic and governance objectives CICA Bermuda are as follows:

Strategic Objectives	Governance objectives enabling the strategic objectives
Maintain the Company's strategic objectives by achieving growth targets while maintaining expected profitability and capital targets.	Strong quarterly capital management to support growth
	Monitor sales volumes, underwriting activities for leading indicators
	Monitor competitors, price products appropriately, listen to the market
	Execute on our growth strategies, including increasing market share in our existing target markets and pursuing new markets, products and distribution methods.

Governance Principles and Framework

In order to achieve these Governance Objectives, the Company has set up a Corporate Governance Framework based on following principles:

- the Board of Directors is the focal point of the governance system and is ultimately accountable and responsible for the performance and conduct of the Company and, as such, must have at its disposal all required capabilities to achieve its duties;
- an embedded compliance function (including Principal Representative function) aiming to ensure the continuous compliance of the Company with all legal, regulatory and administrative requirements, i.e. essentially the Code and the Bermuda laws;
- an appropriate segregation of duties in order to enable the various risk management, internal audit, actuarial and compliance functions to perform independent risk and business control, mitigation, monitoring and reporting tasks;
- a meaningful and practical approach in documenting policies, procedures and strategies and establishing and maintaining well controlled processes to ensure efficiency, fit and proper requirements and best-in-class documentation and governance; and
- structured reporting processes to enable an appropriate escalation of risks to the Board of Directors to ensure a clear and comprehensive information process flow, allowing the Board to perform an efficient and prudent conduct of business in line with the strategic objectives.

According to these principles, the chosen governance model is the "three lines of defense," which leads to the following general governance framework throughout the Company.

Board of Directors

Underwriting and Claims Committee	Investment Committee	Asset Liability Management Committee	Compensation Committee	Risk and Compliance Committee	Finance and Audit Committee	Executive Committee

General Manager

Operations Manager | Senior Accountant

1st line of defense	2nd line of defense	3rd line of defense
Risk and control embedded in the business	**The oversight functions**	**Provides independent assurance**
Primary accountability within the context of day-to-day operations. The first line of defense ensures that operations are carried out correctly and that risk exposures are managed, controlled and reported in accordance with the risk appetite and risk policies set out by the Board.	The 2nd line is in charge of defining, developing, implementing and maintaining risk frameworks, policies and procedures. It defines the business guidelines and oversees the operations. It monitors and ensures that operations, policies and strategies are adequately aligned.	The 3rd line challenges the design and effectiveness of risk management, compliance, control and governance processes. In order to achieve the necessary independence and objectivity, Internal Audit is an independent function that reports directly to the Board.

4.7 Operational Arrangements

CICA Bermuda outsources a number of functions to Citizens through a Service Agreement. The support that Citizens intends to provide includes: (i) underwriting; (ii) policyholder services; (iii) claims handling; (iv) marketing services; (v) actuarial services; and (vi) accounting and legal services. CICA Bermuda believes this approach makes sense from a business and policyholder protection perspective, as Citizens' staff are familiar with the portfolio and the level of support it requires. The services are provided, at Citizens sole option, at either Citizens headquarters in Austin, Texas, or in another location that Citizens may choose. Citizens charges CICA Bermuda a monthly fee.

4.8 Complaints and Litigation

I understand from my engagement with CICA Bermuda management that there are no outstanding litigation issues with respect to the CICA Bermuda policies.

4.9 Other Regulatory Matters

I understand that there are no specific or material issues with respect to CICA Bermuda's regular obligations to and engagements with the BMA.

At 30 June 2022, based on CICA Bermuda's unaudited financial results, the company did not meet its Minimum Margin of Solvency ("MMS"). At 30 June 2022, CICA Bermuda's MMS was calculated at ~$18m while the statutory (i.e. US GAAP) capital and surplus is (~ -$32.3m). CICA Bermuda had been in compliance prior to this quarter.

The breach in the CICA Bermuda's MMS was occasioned by the decrease in the Company's Statutory Capital and Surplus below the regulatory required MMS was predominantly driven by the unrealized loss in the fair value of CICA Bermuda's fixed maturity investments. The occurrence of rising inflation has led to market volatility and rapidly rising interest rates which has resulted in a decline in the fair value of CICA Bermuda's fixed maturity investments. This coupled with a slight increase in statutory reserves from new business and persistency has resulted in reduced equity and Statutory Capital and Surplus.

The breach was reported to the BMA. As the Bermuda Insurance Act of 1978 permits, CICA Bermuda requested a modification under Section 6C for purposes of calculating the minimum solvency margin. At 31 December 2022 CICA Bermuda was compliant with its MMS after being granted a permitted practice by the BMA. The BMA has permitted CICA Bermuda to record fixed income securities at amortized costs in the unconsolidated Statutory Financial Statements. The impact of the modification is to increase the statutory capital and surplus to the total stockholders' equity (excluding AOCI) as set out in Section 4.3.1. After the business transfers it will be subject to Laws and Regulations of Puerto Rico's OIC insurance solvency framework which uses premium to surplus ratios. Thus, at that point the business will be accounted for using SAP whereby investments in bonds are generally carried at cost or amortized cost consistent with the modification received. Further details are set out in Section 5.3.1.

The modification was approved subject to the following conditions:

1) Disclosing in the notes to the Statutory Financial Statements:
    a) The effects on the financial statements if the Insurer were to use the fair value basis to record their fixed income securities in the unconsolidated Statutory Financial Statements.
    b) The significant accounting policies related to the fixed income securities.

c) Any additional information that in the opinion of the Insurer would render the Statutory Financial Statements misleading if not disclosed.

2) Performing periodic impairment testing on the fixed income securities and adjusting the values to reflect other than temporary impairments.

After the business transfers it will be subject to Laws and Regulations of Puerto Rico's OIC Insurance solvency framework which uses premium to surplus ratios. Thus, at that point the business will be accounted for using SAP whereby investments in bonds are generally carried at cost or amortized cost consistent with the modification received. Further details are set out in Section 5.3.1.

I note that the Section 6C modification is in respect of 31 December 2022 only. I have been provided with LDTI projections by the Company for 2023 which show that, assuming significant market volatility does not present itself in the period, the level of stockholder's equity is expected to comfortably exceed the MMS. Thus, should the Proposed Transfer be delayed, a further Section 6C modification is not expected to be required.

4.10 Fair Expectations

CICA Bermuda consider that fair expectations are met considering the below:

- *Security of benefits*: Policyholders have a reasonable expectation that their benefits are secure and will be paid as they fall due.
- *Terms and conditions*: Policyholders have a reasonable expectation that the terms and conditions will not be amended over time, or are only changed so as to enhance the offering to policyholders.
- *Entitlement to benefits*: Policyholders have a reasonable expectation that valid claims will be paid in accordance with policy terms and conditions. Product information does not confer any particular additional reasonable expectations over and above the contractual provisions.
- *Service standards*: Policyholders have a reasonable expectation that the services they receive will be provided in a professional manner, and that claims and enquiries will be dealt with promptly.
- *Dividends*: Dividends on participating policies are non-guaranteed. However, periodically CICA Bermuda reviews dividend payouts with respect to profitability and adjusts the scales as needed.

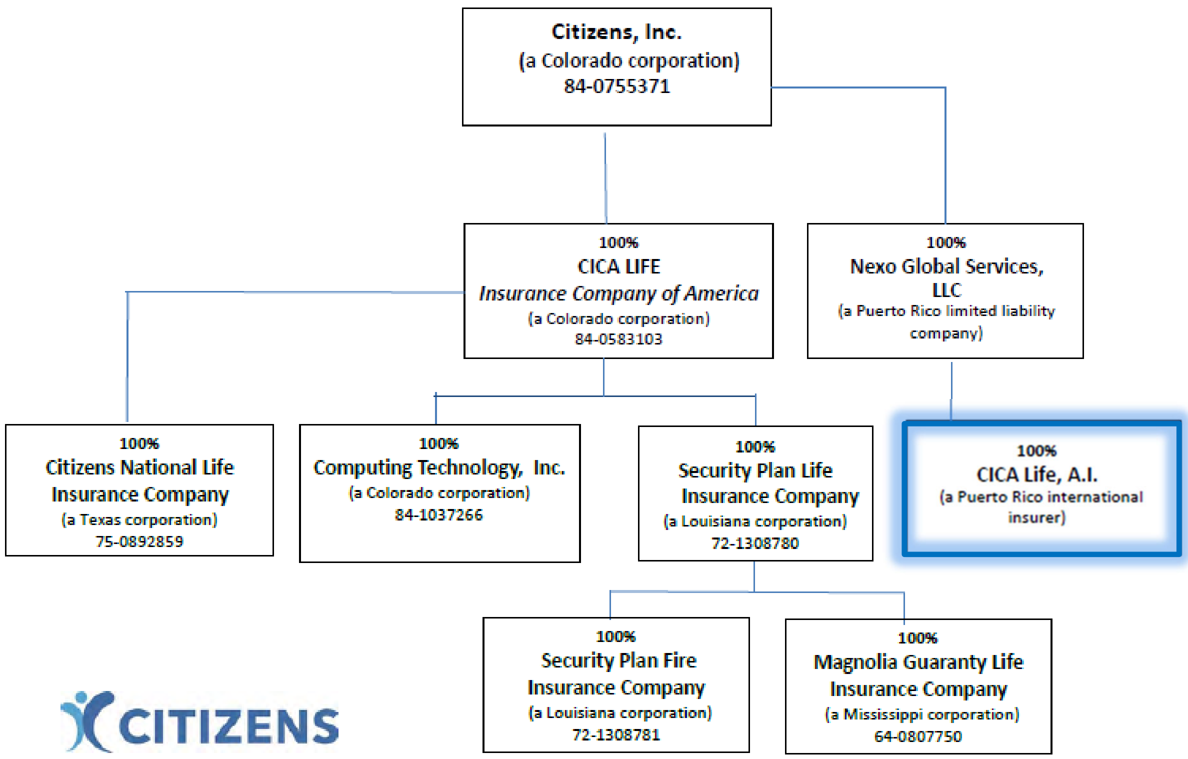
5 Transferee: CICA PR (Puerto Rico)

5.1 Overview

5.1.1 Structure

In 2022, Citizens has formed a new entity called CICA Life International, A.I. (Asegurador Internacional; referred to herein as CICA PR) within the Puerto Rico jurisdiction. CICA PR is a wholly owned subsidiary of CICA Bermuda.

CICA PR has requested a change of ownership modification with the OIC. The modification will consist in the substitution of CICA Bermuda, as direct parent company of CICA PR. The new direct parent company will be NEXO. The sole member of NEXO is Citizens, which is the same company owning 100% of the membership interests in CICA Bermuda, in the same ownership proportion as per the graph below. CICA PR are waiting on formal approval from the OIC. It is my understanding that the change of ownership modification will be resolved ahead of the Effective Date.



5.1.2 History and background

CICA PR is a newly formed entity and therefore does not have historical operations. Prior to January 1, 2023, no business was written and CICA PR commenced writing new business from 1 January 2023.

CICA PR is managed primarily by Citizens' U.S. based management team. The directors are (Citizens' titles included):

- Robert Mauldin, III – Vice President, Chief Marketing Officer
- Jeffery P. Conklin – Vice President, Chief Financial Officer
- Sheryl Kinlaw – Vice President, Chief Legal Officer
- Harvey Waite – Vice President, Chief Actuary
- Bryon Matthew Lewis – Vice President, Operations

The above individuals are also officers of CICA PR and manage their respective functions.

On 28 September 2022, CICA PR was licensed as a Class 5 Authority insurer, which requires minimum capital and surplus of at least $750,000, of which at least $750,000 must be minimum capital. CICA PR has authorized common shares valued at $750,000 divided into 750,000 shares of par value of $1.00. CICA Bermuda, CICA PR's parent company, holds 100% of the common shares. CICA PR is capitalized with a total capital and surplus of $2,000,000, consisting of $750,000 of share capital and contributed surplus of $1,250,000. The funding above the $750,000 minimum capital is to cover costs and new business volume associated with starting up CICA PR and in line with financial projections. Additional capital will be contributed, as required, when business volumes increase.

CICA PR will be subject to various reporting frameworks and will hold capital sufficient to meet the requirements associated with all such reporting frameworks.

5.1.3 Nature of business written

CICA Bermuda issues traditional participating and non-participating whole life polices including traditional whole life and endowment contracts. CICA PR will issue the same products. Specifically, these products are:

- US Dollar denominated life insurance policies.
- Ordinary whole life insurance. These contracts are designed to provide a fixed amount of insurance coverage over the life of the insured and can utilize rider benefits to provide additional increasing or decreasing coverage and annuity benefits to enhance accumulations.
- Endowment contracts, which are principally accumulation contracts that incorporate an element of life insurance protection.

CICA PR has also written to the OIC on 6 October 2022 to notify the OIC of their intention to underwrite critical illness insurance within the original Class 5 authority granted to the insurer.

5.2 Solvency Profile

5.2.1 Solvency reporting requirements

As required by the Laws and Regulations of Puerto Rico that are implemented by the Office of the Commissioner of Insurance, CICA PR, an International Insurer will maintain, at all times, sufficient liquid assets, to satisfy both capital and surplus as well as the premium and liquidity ratios. CICA PR will be classified as Class 5 Authority Insurer; therefore the thresholds for capital requirements are $750,000 of capital and surplus with a minimum of capital of $750,000. In addition, as a Class 5 Authority Insurer, CICA PR will maintain a Premium ratio of less than 7 to 1. I have been provided with a copy of Certificate of Authority from the OIC, dated 28 September 2022. I note the Certificate of Authority does not set out the specifics of the premium ratio for CICA PR, which can differ by insurer as it is based on the business plan (Operational Plan submitted along with the authorisation application). I understand the Certificate of Authority issued by the OIC to CICA PR was approved based on the original business plan submitted to the OIC, and I have relied on that when forming my conclusions.

5.2.2 Current solvency position

CICA PR will be a newly formed entity and does therefore not have a current/historical solvency position. The expected date of execution of the transfer of the CICA Bermuda business is 31 March 2023. Please see section 5.2.3 and 5.3.1 for projected financial and solvency positions.

5.2.3 Projected solvency position

I have been provided with analysis that shows the projected solvency position for CICA PR from 31 March 2023 to 31 December 2025. The projections have been prepared using data available up to 30 June 2022, adjusted to reflect unrealised losses arising as a result of interest rate increases up to 30 September 2022. This can be considered a reasonable starting point given the projections still reflect Citizens (and CICA PR) management's best estimate forecasts and due to the insensitivity of the total statutory capital and surplus to market movements (this is further commented on in Section 5.3.1 below).

The projections indicate that the level of surplus assets is projected to increase over time. Similarly, the premium to surplus ratio is projected to decrease over time implying a stronger capital position as the increase in surplus capital outweighs the relative increases in premiums. The projections shown also show that CICA PR expects the overall business to be profitable over the projection period.

Prior to transfer, the liquidity ratio is expected to be 229% which is driven by the initial capital provided to CICA PR to support the new business written. While the liquidity ratio falls at the transfer date, from 229% to 112% for the consolidated business, the ratios pre-transfer are distorted by low business volumes in CICA PR compared to CICA Bermuda and thus the liquidity ratios are not directly comparable. The projections indicate that post-transfer liquidity ratio levels remain well above the required 80% coverage ratio with the long-term levels remaining very stable post transfer at 112%-114%.

5.3 Financial Profile

5.3.1 Projected financial position

Fixed maturity securities represented approximately 86% of CICA PR's investment portfolio over the projection years and approximately 98% of CICA PR's fixed maturity portfolio will remain investment grade. CICA PR investment philosophy (consistent with industry norms and expectations) of holding debt securities until maturity mitigates concerns associated with temporary market value fluctuations.

The following bullet points provide some context:

- The market value of CICA Bermuda fixed maturity securities investment portfolio was $780.5m at 31 December 2022, compared to $765.1m at 30 September 2022 and $816.5m at 30 June 2022;
- Fixed maturity securities represented approximately 85% at 31 December 2022 ,85% at 30 September 2022 and 86% at 30 June 2022;
- Approximately 99% at 31 December 2022, 98% at 30 September 2022 and at 30 June 2022 of CICA PR fixed maturity portfolio is rated investment grade.

Due to rising interest rates, CICA PR is projecting a pre-tax net unrealized loss on its available-for-sale securities with this declining as interest rates settle. CICA Bermuda's reported a pre-tax net unrealized loss on its available-for-sale securities of $145.8m at 31 December 2022, $153.9m at 30 September 2022, and $93.7m at 30 June 2022, compared to gains of $79.1m at 31 December 2021.

The book value, including AOCI, decrease was primarily driven by the impact of higher interest rates on CICA PR's investment portfolio. CICA PR is projecting that interest rates will decline somewhat over the planning years which will reduce the fair value impact. CICA PR also reports AOCI on a non-GAAP basis by taking actual total stockholders' equity, less AOCI, at the end of the relevant period. Citizens (and CICA PR) management believes this metric is meaningful, as it allows investors to evaluate underlying book value growth by excluding the impact of interest rate volatility. The book value reported on this basis is positive as of 30 June 2022, 30 September 2022, 31 December 2022 and the projection years.

CICA PR exposure to interest rate changes results from their significant holdings of fixed maturity investments of which comprise a substantial portion of our cash and investment portfolio. These investments are mainly exposed to changes in U.S. Treasury rates. CICA PR's fixed maturity security investments include bonds issued by U.S. Government-sponsored enterprises, U.S. treasury bonds, securities issued by government agencies, state and municipal bonds, corporate bonds and other asset-backed securities. Changes in interest rates typically have a sizable effect on the fair value of debt and equities securities. The interest rate of the ten-year U.S. Treasury bond increased to 3.88% at December 2022, 3.83% at September 2022, from 1.52% at 31 December 2021. An increase in interest rates will decrease the net unrealized gain position of our investment portfolio through Other Comprehensive Income.

To manage interest risk, CICA PR management perform periodic projections of asset and liability cash flows to evaluate the potential sensitivity of their investments and liabilities. CICA PR management assess interest rate sensitivity on an annual basis with respect to their fixed maturity security investments using hypothetical test scenarios (which is consolidated and reported in Citizens' Form 10-K filing to the SEC – the individual subsidiaries do not report Form 10-K filings to the SEC) that assume either upward or downward shifts in the prevailing interest rates. Due to the composition of their book of insurance business, they believe it is unlikely they would encounter large surrender activity due to an interest rate increase that would force them to dispose of their fixed maturity securities at a loss.

Duration of their securities is important to effectively manage asset and liability positions. CICA PR's investment portfolio duration will be managed according to its contractual duration needs. The amortized cost and fair value of fixed maturity securities at 30 June 2022 and 31 December 2022 by contractual maturity are shown in the table below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date have been reflected based upon final stated maturity. The fair value included within AOCI is simply timing of when the fixed maturity has fully amortized to its principle in line with the corresponding liability, as shown below, assets closer to its maturity year have significantly lower differences between its amortized costs and fair value.

	30 June 2022*		31 December 2022**	
($,000)	**Amortized cost**	**Fair Value**	**Amortized cost**	**Fair Value**
Fixed maturity securities:				
Due in one year or less	12,269	12,379	8,467	8,463
Due after one year through five years	71,853	72,037	68,294	66,935
Due after five years through ten years	133,404	129,297	154,950	145,237
Due after ten years	692,654	602,758	694,617	559,896
Total fixed maturity securities	**910,180**	**816,471**	**926,328**	**780,531**

** Unaudited*
*** Unaudited preliminary results which may be subject to change*

There are four principal differences between SAP and US GAAP:

- Life policy reserves (reserves differences) are based on prescribed statutory mortality and interest requirements without consideration of withdrawals, while under US GAAP, life policy reserves are based on best estimate assumptions and are subject to management judgment.
- Investments in bonds are generally carried at cost or amortized cost. Accordingly, unrealized changes in fair value are not reflected in the statutory-basis balance sheets, statements of operations, or statements of

changes in capital and surplus. Under US GAAP, investments in bonds are carried at fair value, with unrealized holding gains and losses reported as a separate component of shareholders' equity for those designated as available-for-sale.

- Policy acquisition costs (Deferred acquisition costs (DAC)) are expensed as incurred under the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual (“NAIC SAP”), while under US GAAP these costs, to the extent recoverable from future policy revenues and associated with successful efforts of policy issuance, are deferred and recognized over the life of the contract using assumptions consistent with those used in computing policy benefit reserves.
- An AVR is determined by an NAIC-prescribed formula and reported as a liability, and changes therein are credited or charged directly to unassigned surplus, whereas under US GAAP, no AVR is recorded.

As noted previously in Section 4.3.2 the LDTI adjustments result in an increase in retained earnings from net income improvements, driven by:

- **Policyholder liabilities:** The unlocking of cash-flow assumptions, including the removal of PADs, results in a faster recognition of income under LDTI relative to legacy US GAAP
- **Deferred Acquisition Costs:** DAC will amortize more slowly under LDTI relative to legacy US GAAP primarily due to the presence of limited payment traditional contracts, which use premiums to amortize DAC under legacy US GAAP.

From a US GAAP total stockholder's equity perspective the impact of LDTI is expected to be positive due to lower reserves and higher DAC, although the exact impact has not been calculated by CICA PR for the purposes of the above analysis. However, it is somewhat of a moot point as the changes to US GAAP stockholder's equity as a result of LDTI are reversed out for the purposes of assessing the OIC regulatory capital position, as the total statutory capital and surplus are measured under SAP as set out above.

5.3.2 Reserving basis

CICA PR determines its reserves based on methods and underlying assumptions in accordance with US GAAP and applicable actuarial standards. Assumptions as to investment yields, expenses, mortality and lapses are based upon internal experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviations.

The accrued account balance for non-traditional life insurance and investment contracts is computed as deposits net of withdrawals made by the contract holder, plus amounts credited based on contract specifications, less contract fees and charges assessed, plus any additional interest. Benefits and expenses are charged against the account balance to recognize costs as incurred over the estimated lives of the contracts. Expenses include interest credited to contract account balances and benefits paid in excess of contract account balances.

Legacy US GAAP requires assumptions to be locked in. Assumptions are unlocked only in the event of profitability issues.

For regulatory purposes, a number of adjustments are made (as set out in Section 5.3.1 and Appendix 7) to calculate the Statutory Capital and Surplus used for assessing compliance with the OIC regulatory capital requirements.

5.4 Investment Management

The investment guidelines will focus on financial stability and the prevention of capital erosion. Citizens has appointed Wellington Management as investment manager to manage, supervise and direct a significant part of their investment accounts pursuant to board-approved investment policy guidelines, which includes eligible investments and specific limitations. Citizens and its subsidiaries will use other investment managers to pursue investment diversification, as needed. CICA PR will predominantly invest in fixed maturity securities to maintain a level of liquid securities. It will focus on optimizing performance by looking into new asset classes by leveraging investment market leaders such as Wellington Investment Management and Blackrock to safely diversify into investments such as private equities and limited partnerships while maintaining limits by insurance regulations. The goals would be to increase investment income in addition to capital appreciation.

5.5 Reinsurance

CICA Bermuda has an indemnity reinsurance pooling arrangement structure set-up. CICA Bermuda cedes the net amount of risk in excess of CICA Bermuda's retention limit of $100,000 on a yearly renewable term basis to the pool. CICA PR has been added to these reinsurance treaties effective 1 January 2023. The existing reinsurance treaties in respect of CICA Bermuda are expected to be novated as part of the transfer.

5.6 Risk Profile and Management

5.6.1 Overview of risks

CICA PR is a newly formed entity with just seed capital and no underlying business. In its current form its risks are like those of other startups planning to write similar business. After the transfer CICA PR will have the same risks as CICA Bermuda apart from some additional morbidity risk as a result of CICA PR writing critical illness business. Whilst morbidity risks are introduced, the Citizens' group has expertise at managing these risks.

5.6.2 Risk management framework

CICA PR is a newly formed entity and will have a risk management framework unchanged from the CICA Bermuda entity.

5.6.3 Risk sensitivities

As noted in Section 5.2.3 the Premium to Surplus ratio immediately before and after the transfer are expected to be 5.7 and 5.9 respectively.

While the Premium to Surplus ratio is expected to reduce over the next few years, the expected amount of Capital and Surplus in excess of Capital and Surplus Required for Premium to Surplus Ratio of 7 expected in CICA PR immediately after the transfer is relatively small when compared to the amount that exists in respect of BMA regulatory reporting. Thus, the sensitivity of the Capital and Surplus and the sensitivity of Premium to Surplus ratio are important to understand the potential chances of the Premium to Surplus ratio of 7 not being met.

I have been provided with details of potential sensitivities considered by CICA Bermuda in respect of these metrics, as set out in the table below. In terms of the sensitivities impacting Statutory Capital and Surplus, CICA Bermuda considered the four principal SAP to US GAAP differences (discussed above in Section 5.3.1), in addition to changes in fair value on their equity type investments that could impact their projected statutory capital and surplus.

Area	Company View	Consideration
Interest rate volatility/ Environment	Statutory investments in bonds are generally carried at cost or amortized cost. The impact of interest rate movements, unrealized gains or losses, which are reported as a component of GAAP stockholder's equity are eliminated from statutory capital and surplus.	No sensitivity analysis required, as bonds are generally carried at cost on statutory basis and are not impacted by interest rate movements.
Deferred Acquisition Costs	All costs incurred with the sale of a policy are expensed immediately for stat and not deferred as they are under GAAP. Increases and decreases in DAC balances would not impact statutory capital and surplus, as these expenses have already been included.	Statutory accounting does not allow for a deferral of acquisition costs; they are expensed as incurred.

Area	Company View	Consideration
Life Policy Reserves	Statutory reserves are based on prescribed statutory requirements, changes in GAAP basis reserves do not impact statutory reserves as the calculations are independent of each other.	GAAP is replaced with statutory reserves. Statutory reserves are based on prescribed statutory requirements, changes in GAAP basis reserves do not impact statutory reserves as the calculations are independent of each other.
Asset Valuation Reserve	AVR is a reserve established to offset potential credit-related investment losses on all invested asset categories. The AVR is calculated and reported as determined per statutory guidance for the specific type of investment. In our current projections, one of the largest drivers lowering statutory capital and surplus is the impact from AVR, primarily related to equity type investments. CICA PR will be receiving approximately $60 million of limited partnership and equity investments. These specific types of investments have a 19.5% risk charge which is significantly higher than risk charges for bonds as prescribed by the statutory guidance. The timing of capital calls and distributions can increase or decrease AVR. A maximum AVR reserve of approximately $11.7 million is required on $60 million of equity type investments, which will also be adjusted for realized gains or losses and changes in unrealized gains and losses.	For simplicity, changes in the $60 million balance up or down would generally change the AVR by 19.5%. So, for every $1 million change in the basis of equity type investments AVR could increase or decrease by $195k subject to other changes in the equity type investment. However, I note this is a simplification as the AVR calculations are complex in nature and a full AVR calculation is likely to yield a different result.
Changes in Fair Value of Equity Type Investments	CICA PR will be receiving approximately $60 million of limited partnership and equity investments. Although the full $60 million has exposure to fair value changes, about $30 million has expose to capital appreciation while the rest is supported by debt instruments and produces net investment income. Changes in the fair value of these types of investments are recorded directly to surplus. Fair value changes are difficult to project. Given the difficulty in projecting fair value on equity type investments, CICA Bermuda have not reflected increases or decreases in fair value adjustments in their projections.	Statutory capital and surplus could be impacted by fair value changes in the equity type investments, somewhat offset by a release of AVR. AVR acts as a loss absorbing mechanism. A number of sensitivities in relation to the impact on the statutory capital and surplus of changes in the fair value of these investments are set out in the remainder of this section of the report.
Fixed maturity other than temporary impairment	On a statutory basis the impact of a fixed maturity other than temporary impairment would be booked to income and reduce statutory capital and surplus. US GAAP would reflects the same but an allowance is setup on the balance sheet allowing subsequent recovers to be recorded through income. Statutory does not allow subsequent recoveries. CICA Bermuda at 30 September 2022, holds over 98.3% in investment grade securities, with an overall credit rating of A.	Direct impact on statutory capital and surplus. A number of sensitivities in relation to the impact on the statutory capital and surplus as a result of fixed income investment impairments are set out in the remainder of this section of the report.

The premium to surplus ratio is also influenced by statutory premiums, in addition to statutory and GAAP capital differences. Lower premium growth could improve the ratio, while higher premium growth could potentially put some strain on the ratio.

The above analysis highlights the potential exposure for CICA PR to the c. $60m of limited partnership and equity investments. As noted above, the expected amount of Capital and Surplus in excess of Capital and Surplus Required for Premium to Surplus Ratio of 7 expected in CICA PR immediately after the transfer is expected to reduce.

In the context of the limited partnership (further details of which are outlined in Appendix 9) and equity investments exposure of $60m (which are roughly split 50:50 between debt and equity type instruments), material reductions in the fair value of these investments could potentially result in a breach of the Premium to Surplus Ratio. The risk is further amplified as I understand that a significant portion of these investments are quite illiquid in nature.

I do note that the projected level of excess Capital and Surplus is expected to grow over time, which reduces the risk of a breach somewhat, as higher market falls would be required. Notwithstanding, at the time of transfer a material risk exists due to the nature of these investments held, although this reduces with time based on the current level of asset exposure. If the asset exposure was to increase, as a result of additional unfunded commitments calls, the risk would also increase.

To give further context, the AVR adjustment, prescribed by statutory accounting, in respect of these investments is significant. In the absence of these investments the Total Capital and Surplus would translate to a much lower Premium to Surplus ratio. Thus, these investments should be viewed as key drivers of the resilience of the regulatory capital requirements of CICA PR under the OIC regulatory regime.

I have been provided with a projected view of the value of the Limited Partnership investments position if the unfunded commitments calls and distributions happen in line with management expectations.

In broad terms the analysis highlights increased exposure over time with the levels of investments expected to increase, although I note this analysis does not allow for the potential impact of market movements.

The Limited Partnership investments are exposed to corporate bonds and equity type investments as set out below:

Limited partnership exposure ('000)	30-Jun-22 (Actual)	Proportion
Corporate bonds	31,796	49%
Common Stock	18,606	29%
Preferred stock	14,330	22%
Total	64,732	100%

As noted in Section 5.2.3, the projections indicate that the level of surplus assets is projected to increase over time. Similarly, the premium to surplus ratio is projected to decrease over time implying a stronger capital position as the increase in surplus capital outweighs the relative increases in premiums.

Citizens (and CICA PR) management has provided me with a number of sensitivities at 31 December 2023 to highlight the sensitivity of these investments to market falls. The analysis below shows the impact of a 5% fall in the market value of the underlying corporate bond portfolio and a 40% fall in the market value of the underlying common and preferred stock portfolios for the following scenarios:

- Forecast Calls and Distributions: Assumes additional unfunded commitments calls.
- Remaining unfunded commitments calls called in 2023, Forecast Distributions: Assumes all remaining unfunded commitments calls are called and forecast distributions by 31 December 2023.

- Remaining unfunded commitments calls called in 2023, No Distributions: Assumes all remaining unfunded commitments calls are called by 31 December 2023 and that no distributions are made.
- Current Exposure - No further Calls or Distributions: Assumes the level of Limited Partnership investments remains in line with current levels.

I note that I have prepared the last two sensitivities based on the information provided to me by Citizens (and CICA PR) management to help me understand the potential future exposure if the funding requirements and the distributions in respect of these investments differed from management's expectations.

Should the level of participation in the limited partnership investments be in line with expectation then by 31 December 2023 CICA PR would be able to absorb a material shock to their value as the AVR acts as a loss absorbing mechanism up to a point (as the AVR cannot become negative). As the exposure grows the ability of the AVR to absorb the shocks reduces and that is where the potential exposure lies.

If the exposure increased materially then the analysis suggests that a material deficit could appear on CICA PR's balance sheet at 31 December 2023. That is not to say that a worse shock could manifest itself, but more to highlight the impact of a severe shock akin to those used for equity type investments in Bermuda as part of the BMA regime. It is also worth noting that this scenario assumes the remaining unfunded commitments calls are made in 2023 and that distributions are not made. Management's expectation is that this should not be the case so this could be considered as an upper bound on the exposure.

Based on the current level of exposure CICA PR would be able to absorb a material shock at 31 December 2023 as the level of total capital and surplus is expected to increase over time. However, the projected total capital and surplus at the point of transfer would not be sufficient to absorb such a shock based on the current exposure at the point of transfer.

I have also been provided with some additional sensitivities around the potential exposure to bond defaults and to changes in premium volumes.

I consider the sensitivities tested in this section of the report (i.e. those prepared by Citizens (and CICA PR) management and the additional sensitivities I prepared based on the information provided to me by Citizens (and CICA PR) management) to capture the material risk exposures to which CICA PR will be exposed to over the planning horizon post transfer. I consider that the sensitivities were severe enough to provide a reasonable understanding of the risks to which CICA PR will be exposed to post transfer.

Citizens and CICA PR have executed the PR Keep Well Agreement of $10m, which will be maintained upon transfer of the portfolio to Puerto Rico. I note the PR Keep Well Agreement contains the same terms and conditions of the original Keep Well Agreement between Citizens and CICA Bermuda, but has been updated to be consistent with Puerto Rico law, and includes provisions relating to the OIC capital requirements and sensitivity exposure to the limited partnership investments. The PR Keep Well Agreement states that the agreement will remain in place until such time as CICA PR has sufficient target capital and surplus sufficient to absorb a 5% fall in the market value of the underlying corporate bond portfolio and a 40% fall in the market value of the underlying common and preferred stock portfolios underlying the Limited Partnership investments.

I have also been provided with a legal opinion on the enforceability of the PR Keep Well Agreement from CICA PR's Puerto Rico legal advisors, Rexach & Picó and Citizens' Chief Legal Officer, Sheryl Kinlaw, which consider the enforceability of the PR Keep Well Agreement from a Puerto Rico and Colorado legal perspective, respectively.

Given the potential exposure to these investments, the management of Citizens and CICA PR have done the following, which mitigate the exposure to the sensitivity to market movements of the limited partnership investments:

- The Scheme of Transfer requires CICA PR to hold target capital and surplus sufficient to absorb a 5% fall in the market value of the underlying corporate bond portfolio and a 40% fall in the market value of the underlying common and preferred stock portfolios underlying the Limited Partnership investments. The target capital and surplus can be reduced to allow for the financial impact of the PR Keep Well Agreement.
- Citizens has entered into the PR Keep Well Agreement with CICA PR, which requires that it is kept in place until such time as CICA PR has sufficient capital and surplus to absorb a 5% fall in the sum total of the market value and unfunded commitment calls of the corporate bond portfolio and a 40% fall in sum total of the market value and unfunded commitment calls of the common and preferred stock portfolios underlying its Limited Partnership investments. The Scheme of Transfer also references the PR Keep Well Agreement as an additional requirement to keep it in place as described above.
- The Board of Administrators of NEXO has resolved to contribute $3m in additional capital to CICA PR ahead of the Effective Date to reduce reliance on the PR Keep Well Agreement in the first instance. Since this capital injection would not be required if the Proposed Transfer did not occur, the proposed timing of the capital injection appears reasonable.

I note that as a result of these activities, that the capital projections and sensitivities prepared suggest that CICA PR would have sufficient assets to meet their liabilities and policyholder commitments should the sensitivities tested materialise.

I also note that should the level of limited partnership investments be in line with expectation, then the level of capital and surplus should be sufficient without the need for additional capital supports, save the $3m capital injection as noted above.

CICA PR have provided me with a summary of the measures Citizens will undertake to address any shortfall related to regulatory capital or the Premium to Surplus ratio exceeding the 7 to 1 ratio approved within the CICA PR business plan submitted to the OIC. They are as follows:

Immediate measures that can be taken (within Citizens' control):

- Citizens' officers have a fiduciary duty to responsibly manage its insurance subsidiaries, which includes providing needed capital to CICA PR. to ensure regulatory capital requirements are maintained. The following action(s) will be considered by Citizens' management:
  - Citizens owns liquid assets consisting of cash and fixed maturity investments, currently above $30 million. These funds are available and will be used, if required for capital management. Citizens would sell fixed maturities or consider an asset transfer of securities for a capital contribution.
  - Citizens has access to a line of credit of $20 million, subject to covenants. If determined this credit line needs to be accessed, Citizens management will draw down on this line of credit.

Other measures that Citizens (and CICA PR) management will consider (which require regulatory approval and are therefore outside the control of Citizens or CICA PR):

- Request a modification to the prescribed AVR calculation on the limited partnership assets, specific to the assets being transferred as part of the business transfer. These assets were purchased under the BSCR requirements which has a look through provision reducing the risk charges, under SAP the level of risk charge is materially higher and does not allow for a look through.

As noted in Sections 3.2.2 and 3.2.3, the Total Stockholders' Equity figures for Citizens and consolidated subsidiaries at 31 December 2022 are heavily distorted by AOCI, which is driven by the unrealized loss positions on the subsidiary balance sheets resulting from the rapidly rising interest rates and stock market volatility during 2022. Because of Citizens' asset and liability duration matching policy, the vast majority of their total investments are invested in longer-term fixed maturity securities, and they reported a pre-tax net unrealized loss on their available-for-sale securities at 31 December 2022. The credit ratings and default risk of their fixed maturity securities were not significantly impacted by the rise in interest rates and volatility in 2022 and because they intend to hold the long-term investments to maturity, they do not believe that the unrealized loss is indicative of their financial strength.

For Citizens, the relatively small Total Stockholders' Equity position at 31 December 2022 is a function of US GAAP fair value accounting and doesn't consider the cash and available invested assets, which are readily available to provide financial support to the subsidiaries if required. The expectation is that the current level of unrealized losses will naturally unwind over time as the bonds trend towards maturity. While the historic and projected Total Stockholders' Equity figures are volatile, the Total Stockholders' Equity figures excluding AOCI has been far more stable and far exceeds the potential capital needs required by CICA PR as set out in my Report.

In terms of the ability of Citizens to provide the necessary support, it holds separately fixed maturity securities, equities, other invested assets and cash available for capital management as noted in Section 3.3.1. I understand from Citizens' management that there are no restrictions on the use of these funds, although Citizens' Board of Directors approval would be required for a capital injection to be performed.

The fixed maturities securities are invested in shorter term assets that can be easily liquidated and around 60% of the portfolio has a duration of less than 5 years. At 31 December 2022, the fixed maturity securities market value on Citizens' balance sheet was $28.6m with 100% invested in investment grade securities at December 2022, and thus the risk of default on these assets can be considered to be relatively low. Citizens reported a pre-tax net unrealized loss on its available-for-sale securities $0.8m at 31 December 2022.

Thus, in terms of the above considerations, and the fact that the PR Keep Well Agreement has been executed, strengthening the terms and conditions of the original Keep Well Agreement, and I have been provided with Legal opinions on its enforceability (both from a Puerto Rico and Colorado Law perspective), I am of the view that Citizens would be in a position to inject capital into CICA PR if required to do so.

5.6.4 Governance

The governance structure of CICA PR will be essentially the same as that of CICA Bermuda. References to Bermuda Law will be updated where necessary.

5.7 Operational Arrangements

CICA PR intends to outsource a number of functions to Citizens through a Service Agreement that has been approved by the OIC. The support that Citizens intends to provide includes: (i) underwriting; (ii) policyholder services; (iii) claims handling; (iv) marketing services; (v) actuarial services; and (vi) accounting and legal services. CICA PR believes this approach makes sense from a business and policyholder protection perspective, as Citizens' staff is familiar with the portfolio and the level of support it requires. The services will be provided, at Citizens sole option, at either Citizens headquarters in Austin, Texas or in another location that Citizens may choose. Citizens will charge CICA PR a monthly fee equal to the actual expenses of providing services, plus 12.5% thereof (or such other amount as the OIC may approve from time-to-time).

5.8 Complaints and Litigation

As CICA PR is a newly formed entity, there is not any current open complaints or litigation matters.

5.9 Other Regulatory Matters

As CICA PR is a newly formed entity, there is not any current open regulator matters applicable to the entity.

5.10 Fair Expectations

All expectations are to remain the same as stipulated for CICA Bermuda.

6 The Scheme of Transfer

6.1 Background

In 2018, Citizens who is the ultimate parent of CICA PR, caused CICA America, its largest U.S.-based insurance subsidiary, to novate insurance policies held by non-U.S. policyholders to its newly formed Bermuda insurance company, CICA Bermuda.

The purposes of forming CICA PR were to:

- Provide non-U.S. policyholders the ability to purchase policies in a U.S. territory.
- To closely align with the largely Latin American (Spanish speaking) demographic of CICA Bermuda's international business culture.
- The policies issued will not be subject to §7702 or any equivalent statute.
- Participates in FATCA tax reporting, which would make it easier for a U.S.-based company to administer.

Puerto Rico was chosen as the jurisdiction to transfer the business to and accomplish the goals set forth above.

6.2 Business to be Transferred

In Bermuda, the proposed transfer of long-term business from one entity to another must be approved by the Bermuda Court. As part of the application to the Bermuda Court for an order to sanction a transfer of long-term insurance business, the application must be accompanied by a report on the terms of the Scheme of Transfer by the Approved Actuary, in conformance to Section 25 of the Insurance Act.

The Scheme of Transfer will be executed by transferring all of CICA Bermuda's policies, liabilities, and assets backing the liabilities to CICA PR. The regulatory minimum paid up share capital of $250k is expected to remain in CICA Bermuda to support the minimum capital requirements until CICA Bermuda has surrendered it license to the BMA, after which it will declare a dividend to its parent company, Citizens, subsequent to which it may seek to voluntarily liquidate.

As consideration for the acceptance of transfer of liabilities under the policies comprising the Transferring Business, CICA Bermuda shall pay to CICA PR its Transferring Assets (i.e. all assets comprised in or relating to the Transferring Business minus assets representing the Paid Up Share Capital).

Post-transfer there will be no insurance liabilities remaining (subject to any AML or sanctioned related reasons that can prevent a policy from being transferred).

6.3 Continuity of Proceedings

CICA Bermuda is party to complaints, legal actions, and regulatory proceedings arising out of normal business operations, including as the plaintiff and defendant in arbitration and litigation matters related to contested insurance claims. While CICA Bermuda has indicated that they cannot predict the likelihood, outcome or impact of any future arbitration, litigation, or regulatory proceedings, they do not believe any such items would arise. At the time of writing this Report, no existing disputes exist.

It is my understanding that at the Effective Date, any future legal proceedings against CICA Bermuda in relation to the insurance business being transferred will become the responsibility of CICA PR.

Specifically for insurance liabilities, effective as of the Effective Date:

- CICA Bermuda will transfer to CICA PR, and CICA PR will accept all, of CICA Bermuda's liability and obligations in accordance with the Scheme of Transfer. Thereupon, CICA Bermuda will have no further liability to the policyholders.
- CICA PR accepts all obligations and liabilities formerly of CICA Bermuda, and CICA PR will be liable for the payment of losses in accordance with the terms and conditions of the respective contracts. CICA PR agrees to administer all claims and to service and otherwise administer the policies in accordance with the terms and conditions of the policies and with applicable laws and regulations.

6.4 Rights and Obligations

Every person who is a holder of a CICA Bermuda insurance policy being transferred will be entitled to the same contractual rights against CICA PR as he or she may have had against CICA Bermuda. There will be no changes post-transfer to terms and conditions that the transferred book is currently subject to.

Both CICA Bermuda and CICA PR shall take all measures necessary to ensure on and after the Effective Date that:

- The same rights, benefits, and liabilities of policyholders of the insurance contracts, and of all persons claiming through or under them in all respects as they would have been if the insurance contracts had been issued or entered into by CICA PR instead of CICA Bermuda, and the proposals, applications, declarations, and representations on which such contracts were based had been made to and accepted by CICA PR instead of by CICA Bermuda.
- CICA Bermuda and CICA PR shall ensure that any policyholder under an insurance contract or other person having any claim on or obligation to CICA Bermuda under or in respect of an insurance contract will have the same claim on or obligation to CICA PR in substitution for that person irrespective of when such claim or obligation arose.

I understand that policyholder protection schemes are not a feature in either Bermuda or Puerto Rico. I understand that a statutory priority over non-policyholder creditors exists in both jurisdictions.

6.5 Existing Reinsurance Arrangements

All assets including reinsurance contracts are expected to be transferred to CICA PR (except any reinsurance in relation to policies that cannot be transferred due to AML or sanctions-related reasons), and therefore will continue to operate in the same way as they do currently. I have been provided with a letter from CICA Bermuda's insurance broker, Innovative Reinsurance Group, indicating that all of our current reinsurers have agreed in principle to the transfer.

6.6 Quality of Assets

The majority of CICA Bermuda's assets will be transferred to CICA PR. The regulatory minimum paid up share capital of $250k is expected to remain in CICA Bermuda to support the minimum capital requirements until the CICA Bermuda has surrendered it license to the BMA, after which it will declare a dividend to its parent company, Citizens, subsequent to which it may seek to voluntarily liquidate.

The investment guidelines will focus on financial stability and the prevention of capital erosion. Wellington Management will continue to act as investment manager to manage, supervise and direct a significant part of their investment accounts pursuant to board-approved investment policy guidelines, which includes eligible investments and specific limitations. Citizens and its subsidiaries will use other investment managers to pursue investment diversification, as needed.

CICA PR will predominantly invest in fixed maturity securities to maintain a level of liquid securities. It will focus on optimizing performance by looking into new asset classes by leveraging investment market leaders such as Wellington Investment Management and Blackrock to safely diversify into investments such as private equities and limited partnerships while maintaining limits by insurance regulations. The goals would be to increase investment income in addition to capital appreciation.

6.7 Capital Support

CICA PR will be classified as a Class 5 Authority Insurer and therefore will be subject to a minimum capital requirement of $750,000. In addition, as a Class 5 Authority Insurer CICA PR will maintain a Premium to capital ratio of 7 to 1. CICA PR has been capitalized with a total capital of $2,000,000 consisting of $750,000 of share capital and contributed surplus of $1,250,000. The funding above the minimum capital requirement is to cover costs associated with starting up CICA PR and in line with financial projections. As noted in the business plan submitted to the OIC, additional capital will be contributed, as required, when business volumes increase.

6.8 Regulatory Capital and Surplus

Post-transfer, the Regulatory Capital and Surplus for the book of business will be determined using CICA PR's approach, as required by the Puerto Rico regulator. An overview of the Overview of Puerto Rico Regulatory Regime is set out in Appendix 3.

6.9 Administration Arrangements

Similar to CICA Bermuda, CICA PR intends to outsource a number of functions to Citizens through a Service Agreement. The support that Citizens intends to provide includes: (i) underwriting; (ii) policyholder services; (iii) claims handling; (iv) marketing services; (v) actuarial services; and (vi) accounting and legal services. CICA PR believes this approach makes sense from a business and policyholder protection perspective, as Citizens' staff is familiar with the portfolio and the level of support it requires. The services will be provided, at Citizens sole option, at either Citizens headquarters in Austin, Texas, or in another location that Citizens may choose. Citizens will charge CICA PR a monthly fee equal to the actual expenses of providing services, plus 12.5% thereof (or such other amount as the regulator may approve from time-to-time).

6.10 Taxation

There is no tax on corporate profits under Bermuda law.

The corporation tax rate in Puerto Rico is 4%. Puerto Rico provides certain tax benefits afforded by the various laws of the Commonwealth of Puerto Rico encouraging the establishment of international insurance and insurance intermediation and service companies in the domicile. For example, a 0% corporate tax rate is payable on earnings up to $1.4m and the policies issued will not be subject to §7702 of the U.S. Internal Revenue Code or any equivalent statute.

6.11 Costs of the Proposed Transfer

All costs associated with the Transfer, including the costs of the Approved Actuary and counsel will be borne by Citizens. The costs will not affect the asset or liability positions of the Scheme Entities. The costs are not expected to exceed $500k and are immaterial to the overall financial position of Citizens.

6.12 Policyholder Communications

Prior to the Effective Date, CICA Bermuda shall make all required public notices in accordance with the timing requirements as set forth under applicable laws. The Bermuda Court will set down their communication requirements. My understanding is that the Puerto Rico Regulator does not have specific requirements. In terms of policyholder communications, I note:

- The intention is to communicate with CICA Bermuda policyholders via a Circular to Policyholders.
- I note that the Circular to Policyholders references the documents made available for consultation to CICA Bermuda policyholders (including a website link to view and download, as well as an address in Bermuda at Kennedys, CICA Bermuda's counsel, to physically inspect) will include:
  - This Report and a summary of this Report ("Summary Report")
  - The Scheme of Transfer
  - The petition to the Bermuda Court
- The Circular to Policyholders will advise policyholders of their right to be heard by the Bermuda Court at the sanction hearing regarding any objections. It will provide the policyholders with a summary of the key terms of the Scheme of Transfer, including (i) information on the background to and reasons for the Proposed Transfer, (ii) the effect of the Proposed Transfer on the policies and what the policyholders have to do, (iii) information about CICA PR, (iv) an overview of Bermuda regulatory protections and of the transfer proceedings, which includes a statement that this Report opines that the Proposed Transfer will not materially adversely affect the policyholders and is fair to the policyholders, (v) how to object to the Proposed Transfer, (vi) what happens on the Effective Date, and (vii) a listing of documents available for inspection and a helpline service to call for questions.
- In addition to the Circular to Policyholders, CICA Bermuda will publish a legal notice in connection with the Proposed Transfer in the Bermuda Royal Gazette.
- I understand that my Report will be available to policyholders via a link on Citizens' website at https://www.citizensinc.com/cica-ltd-transition-cica-ai-puerto-rico/ and the existence of the above-referenced documents will be very clearly signposted in the Circular to Policyholders. This approach is in line with my understanding of the BMA's expectations.
- In addition, the Circular to Policyholders will be made available on the Citizens' website.
- I understand that Spanish, Portuguese and Mandarin translations of the Circular to Policyholders and Summary Report will be made available to CICA Bermuda policyholders.
- There is no intention to communicate with the policyholders of CICA PR. It is my understanding that this is not a requirement of the OIC and therefore I consider it reasonable.

6.13 Governing Law

The sanctioning of the Scheme of Transfer pursuant to section 25 of the Insurance Act is governed by Bermuda Law.

7 Assessment of the Scheme of Transfer: Financial security of policyholders

7.1 Introduction

As the Approved Actuary, the key areas in my opinion that I need to consider for the different groups of policyholders that could potentially be affected by the Scheme of Transfer, namely the transferring CICA Bermuda policyholder, are:

- Financial security of policyholders
- Fair treatment of policyholders

This section assesses the security of the policyholder benefits.

Aspects of the business and the Scheme of Transfer which could impact the security of policyholder benefits, and should therefore be considered when reviewing the Scheme of Transfer, include:

- **Financial Strength of Regime Change**
  - Financial security following the implementation of the Scheme of Transfer for the different groups of policyholders, through consideration of the regulatory capital position across each of them.
  - Business planning outlook and projected solvency.
  - Stress and Scenario tests on a plausible basis to understand how robust the regulatory capital position is to such tests.
  - Reserving methodology differences.
- **Other Considerations**
  - Impact of the Scheme of Transfer on the risk levels in CICA PR and whether new additional risks are created as a result of the Scheme of Transfer.
  - Quality of capital including any capital support arrangements.
  - External reviews/ audit findings on material areas.
  - Continuation of reinsurance arrangements and any potential issues with reinsurance counterparties.
  - Other elements worthy of consideration e.g. expenses, outsourcing, strategic asset allocation.

In the following sections, I comment on the relative level of security of the transferring CICA Bermuda policyholders. I have examined the above on both a quantitative and qualitative basis.

7.2 Financial Strength Assessment

7.2.1 Introduction

As described in Section 6 above, the Scheme of Transfer will involve the transfer of all CICA Bermuda's policyholder liabilities and assets to CICA PR. The existing assets held by CICA Bermuda backing the reserves will be transferred to CICA PR. These assets will serve as assets required to back the policyholder liabilities on the CICA PR balance sheet. Any remaining assets will also be transferred to the CICA PR balance sheet. The transfer price will be set to the difference in assets and liabilities as at the date of transfer.

7.2.2 Regulatory regimes

In Bermuda, the Bermuda regulatory framework is built upon the quantitative, qualitative, and supervisory pillars. The framework is equivalent to the Solvency II framework adopted in Europe (and, indeed, the European regulatory authorities have declared the Bermudan regime to be equivalent).

Insurers are expected to ensure that they carry sufficient capital in line with the BMA's requirements. The capital requirement is computed using the BMA's factor-based model, which is designed to approximate a Tail Value at Risk measure based on a 99% confidence level over a one-year time period with full run-off of insurance liabilities. It can be calculated using either the standard formula or an approved internal model.

Each commercial insurer must carry out a CISSA annually and submit the output of the assessment, meeting specific minimum requirements. The CISSA requires insurers to identify all the material risks (including qualitative risks) to which it is subjected, including the related risk management processes and controls. The underlying processes of the CISSA should be integrated into the insurer's decision-making process and serve a critical role in the development, implementation, and monitoring of management strategies.

In Puerto Rico, insurers need to hold a nominal minimum capital and surplus, where the amount required depends on the insurer class. Class 5 International Insurers are required to maintain a minimum capital and surplus of the larger of the following amounts:

i. Seven hundred fifty thousand dollars ($750,000), or
ii. The ratio of net premium plus written considerations and Capital and Surplus, established in the Operational Plan submitted along with the authorization application or amended and approved by the Commissioner, applied to net premium and considerations in the current accounting year.

International insurers should maintain a minimum liquidity ratio under Section 61.090 of the Code, subject to the following:

(a) All international insurers should maintain liquid assets with a value of no less than eighty percent (80%) of the total amount of their liabilities.
(b) For the purposes of this section, the term "liquid assets" includes (i) fixed-term cash deposits; (ii) classified investments, such as bonds and non-mortgage obligations, common and preferred stock, and other classified investments; (iii) bonds and unclassified notes, valued according to the value reported on audited financial statements; (iv) real estate first mortgage investments; (v) payable and accrued investment income; (vi) accounts and premiums receivable for no more than ninety (90) days; (vii) reinsurance receivable balance; and (viii) funds retained by ceding reinsurers, for no more than one hundred and sixty (160) days
(c) For the purposes of this section, investments in preferred or common stock of an affiliate are not considered liquid assets.

There is no requirement to perform an exercise equivalent to a CISSA in Puerto Rico.

From 28 February 2023, CICA Bermuda. will need to comply with an obligation under 8.1 of the Insurance Code of Conduct, to conduct its business with integrity and to manage conflicts of interest. This comprises the conduct of business framework applicable to insurers, such as CICA Bermuda, who do not write domestic business. There is no developed Treating Customers Fairly ("TCF") or Policyholder Reasonable Expectations ("PRE") regime in Puerto Rico and I have therefore used my experience to set out what would be typically included in such frameworks as it pertains to transfers.

The respective regulatory regimes are further outlined in Appendix 3 and Appendix 4.

7.2.3 Reserving methodology differences

I have reviewed and considered the most recent report prepared by the Approved Actuary of CICA Bermuda. CICA Bermuda uses US GAAP principles for its basis of accounting. For local statutory financial statements, US GAAP is used.

The long-term benefit reserves, the BEL, are calculated using a gross premium valuation approach. Best estimate assumptions informed by experience investigations are utilised. CICA Bermuda uses the US standard yield curve published by the BMA to discount future cashflows that make up the best estimate reserves.

CICA Bermuda's in-force business has settlement option guaranteed interest rates. An additional reserve is established on a US GAAP basis in line with SOP 03-1 using best estimate mortality, lapse, and interest rates. This is included in the overall BEL.

For CICA PR, I note that the reserving methodology will be US GAAP principles and therefore consistent with CICA Bermuda. For OIC regulatory purposes, a number of adjustments are made (as set out in Section 5.3.1 and Appendix 7) to calculate the Statutory Capital and Surplus used for assessing compliance with the OIC regulatory capital requirements.

7.2.4 Solvency coverage at transfer date

The capital and surplus is expected to increase in CICA PR after the transfer reflecting the transfer of all assets, save the regulatory minimum paid up share capital of $250k is expected to remain in CICA Bermuda to support the minimum capital requirements until CICA Bermuda has surrendered its license to the BMA. Overall, while the premium to surplus ratio increases as a result of the transfer, the impact is small and thus the capital ratio will remain largely unchanged as a result of the transfer.

For CICA Bermuda, the excess level of capital and surplus assets over the regulatory requirements changes considerably as a result of the transfer. This is a function of a number of differences relating to both the accounting treatment of the assets and liabilities (which results in a more prudent view of the balance sheet) and the level of capital required to be held (which are lower in Puerto Rico).

At 30 June 2022, CICA Bermuda had surplus assets of $81.5m in respect of regulatory requirements of $35.4m for the purposes of assessing the regulatory balance sheet in respect of the BMA regulatory reporting regime. Immediately before the transfer, the level of surplus assets under the OIC regulatory regime is expected to reduce in respect of lower regulatory capital requirements. So, while the perceived strength of the business has reduced, this is due to more conservative treatment of the balance sheet, which is unchanged in terms of asset composition, offset by reduced capital requirements.

Notwithstanding, the exposure to high levels of limited partnerships and equity type investments is a concern due to the high levels of the AVR adjustments and the sensitivity to market movements that these investments attract, which directly impacts on the capital and surplus position. While I note the AVR would mean CICA PR would be able to absorb a shock to their value up to a certain point (as the Asset AVR acts as a loss absorbing mechanism up to a point), the economic backdrop is currently quite volatile, which could significantly impact on the value of these investments in a short time period, which in turn could result in a regulatory breach under the OIC regulatory regime.

The economic backdrop is currently quite volatile, which could significantly impact on the value of these investments in a short time period, which in turn could result in a regulatory breach under the OIC regulatory regime.

However, I do note the existing regulatory issue with the BMA regarding MMS compliance due to unrealised losses on the CICA Bermuda balance sheet and the Section 6C modification granted by the BMA permitting CICA Bermuda to record fixed income securities at amortized costs in the unconsolidated Statutory Financial Statements. After the business transfers it will be subject to Laws and Regulations of Puerto Rico's OIC insurance solvency framework which uses premium to surplus ratios. Thus, at that point the business will be accounted for using SAP whereby investments in bonds are generally carried at cost or amortized cost consistent with the modification received. Further details are set out in Section 5.3.1.

I note that the Section 6C modification is in respect of 31 December 2022 only. I have been provided with LDTI projections by the Company for 2023 which show that, assuming significant market volatility does not present itself in the period, the level of stockholder's equity is expected to comfortably exceed the MMS. Thus, should the Proposed Transfer be delayed, a further Section 6C modification is not expected to be required.

I note the potential measures that CICA PR could take in the event of a breach of the premium to surplus ratio, as set out in Section 5.6.3 which note that Citizens will provide needed capital to CICA PR to ensure regulatory capital requirements are maintained.

I also note that in April 2021, CICA Bermuda implemented a $10 million Keep Well Agreement with Citizens based upon discussions with the BMA. The purpose of the Keep Well Agreement is to provide the option of an additional capital injection to support CICA Bermuda's capital position given the interest rate volatility in their EBS and BSCR ratio. I note that the PR Keep Well Agreement has been entered into between Citizens and CICA PR to be consistent with Puerto Rico law, and includes provisions relating to the OIC capital requirements and sensitivity exposure to the limited partnership investments. I understand reference to the PR Keep Well Agreement will be included in the Scheme of Transfer.

7.2.5 Business plan and projected solvency

I have been provided with the projected solvency position for CICA PR post the Scheme of Transfer based on a presumed transfer date of 31 March 2023 and onwards, consistent with that discussed in Section 5.2.3. The projections indicate that the level of surplus assets is projected to increase over time. Similarly, the premium to surplus ratio is projected to decrease over time implying a stronger capital position as the increase in surplus capital outweighs the relative increases in premiums. The projections shown also show that CICA PR expects the overall business to be profitable over the projection period.

I note that, in broad terms, there will be no changes to the business plans being pursued by CICA PR – the Scheme of Transfer is in accordance with CICA PR's business plan.

7.2.6 Key risks

The key risks are in line with those outlined in Section 4.6.1 and Section 5.6.1. Post-transfer, CICA PR will be exposed to additional market risk given the potential duration mismatch between assets and liabilities, as currently identified by CICA Bermuda. The investment strategy of CICA PR will need to ensure adequate asset/liability matching for the transferred book of business. The exposure to limited partnerships and equity type investments increases the risk exposure given the reduced level of surplus under the OIC regulatory regime.

7.3 Other Matters Impacting on Financial Security

7.3.1 Risk profile

The risk profile of the transferring business will be broadly unchanged as a result of the transfer. As noted elsewhere in the Report, I have also reviewed the existing risk issues logs for CICA Bermuda and have no issues to raise with regard to the Scheme of Transfer.

7.3.2 Risk framework

The risk management programs of both CICA Bermuda and CICA PR are part of the overall risk management program of Citizens, which is already mature and well-established. The Scheme of Transfer is not expected to change the current risk management program in place. Even though the book being transferred to CICA PR would be the first block of business being managed, the risk management program is developed by Citizens and is robust enough to cater for the transferred book.

Both CICA PR and CICA Bermuda have robust programs in place; consequently, the risk framework supporting the transferring CICA Bermuda policyholders will be replaced with another strong framework.

7.3.3 External reviews / audit findings on material areas

I have reviewed the external and internal audit reports for CICA Bermuda (CICA PR is a new entity and would not have any existing reports) and note that there are no material areas for either CICA Bermuda or CICA PR that would impact on the transfer.

7.3.4 Reinsurance arrangements

All reinsurance contracts will be transferred to CICA PR and the security of policies in this regard will not change as a consequence of the Scheme of Transfer. The communication with the reinsurers has already been done, with all reinsurers agreeing to novate the existing arrangements.

7.3.5 Investment management

Wellington Management will continue to act as investment manager to manage, supervise and direct a significant part of their investment accounts pursuant to board-approved investment policy guidelines, which includes eligible investments and specific limitations. Citizens and its subsidiaries will use other investment managers to pursue investment diversification, as needed. It is expected that the nature, mix and exposure to various asset classes to mimic that of CICA Bermuda at the date of transfer.

7.4 Conclusion on the impact of the Scheme of Transfer on the financial security of policyholders

7.4.1 Conclusion on the impact of the Scheme of Transfer on the financial security of the CICA Bermuda policyholders

In this section I have considered the aspects of the Scheme of Transfer that I consider having the potential to affect the security of CICA Bermuda policyholders. The key areas are:

- Regulatory regime requirements
- Capital resources available
- Risk profile
- Capital profile
- Risk and capital mitigation plans

Based on my consideration of these key elements, in my opinion that the Scheme of Transfer will not have a material adverse effect on the financial security of any of the policyholders involved. Therefore, in my view, policyholders will not be materially adversely affected by the Scheme of Transfer.

7.4.2 Conclusion on the impact of the Scheme of Transfer on the financial security of the CICA PR policyholders

CICA PR is yet to write new business but will have done so by the time the transfer is executed. Based on my consideration of these key elements, in my opinion that the Scheme of Transfer will not have a material adverse effect on the financial security of any of the policyholders involved. Therefore, in my view, policyholders will not be materially adversely affected by the Scheme of Transfer.

8 Assessment of the Scheme of Transfer: Fair treatment of policyholders

8.1 Introduction

As the Approved Actuary, the key areas in my opinion that I need to consider for the different groups of policyholders that could potentially be affected by the Scheme of Transfer, namely the transferring CICA Bermuda policyholders, are:

- Financial security of policyholders
- Fair treatment of policyholders

This section assesses the fair treatment of policyholders which include disclosures to policyholders, maintenance of terms and conditions, the use of discretion by companies, local legislative requirements, and the day-to-day administration of policies.

From 28 February 2023, CICA Bermuda. will need to comply with an obligation under 8.1 of the Insurance Code of Conduct, to conduct its business with integrity and to manage conflicts of interest. This comprises the conduct of business framework applicable to insurers, such as CICA Bermuda, who do not write domestic business. There is no developed Treating Customers Fairly ("TCF") or Policyholder Reasonable Expectations ("PRE") regime in Puerto Rico. I therefore have defined some broad requirements which I consider important when assessing fair treatment under TCF requirements. These requirements include:

- *Security of benefits*: Policyholders have a reasonable expectation that their benefits are secure and will be paid as they fall due. I have considered financial strength and ongoing compliance with regulatory requirements in the previous section, Section 7.
- *Entitlement to benefits*: Policyholders have a reasonable expectation that valid claims will be paid in accordance with policy terms and conditions.
- *Terms and conditions*: Policyholders have a reasonable expectation that contracts remain unchanged.
- *Service standards*: Policyholders have a reasonable expectation that the services they receive will be provided in a professional manner, and that claims and enquiries will be dealt with promptly.
- *Expenses and charges*: Policyholders have a reasonable expectation that charges levied remain in line with policy terms and conditions and that approaches do not change.
- *Costs of the Scheme*: Policyholders have a reasonable expectation that any costs related to the Scheme of Transfer will not be to their detriment.
- *Discretion*: Policyholders have a reasonable expectation that the application of discretion will remain unchanged.

- *Complaints and redress*: Policyholders have a reasonable expectation that the complaints-handling procedures remain unchanged.
- *Policyholder communications*: Policyholders impacted by the Scheme of Transfer would have an expectation that they would be communicated with (including technical information on the Scheme of Transfer along with the Approved Actuary Report) and if they had issues to raise them.

My overarching assessment is to focus on changes to any of the broad requirements brought about by the Scheme of Transfer.

8.2 Specific Considerations

8.2.1 Security of benefits

This is considered in the previous section, Section 7.

8.2.2 Current practices, service standards, and complaints

Similar to CICA Bermuda, CICA PR intends to outsource a number of functions to Citizens through a Service Agreement. The support that Citizens intends to provide includes: (i) underwriting; (ii) policyholder services; (iii) claims handling; (iv) marketing services; (v) actuarial services; and (vi) accounting and legal services. Citizens' staff is familiar with the portfolio and the level of support it requires. The services will be provided, at Citizens sole option, at either Citizens headquarters in Austin, Texas, or in another location that Citizens may choose.

I have considered the background for both these entities and believe that the overall service standards will remain strong post-transfer. Therefore, in my opinion, the implementation of the Scheme of Transfer will not have an adverse effect on the fair treatment of policyholders in this regard.

8.2.3 Terms and conditions

I note that the policy terms and conditions are not anticipated to change as part of the Scheme of Transfer.

8.2.4 Expenses and charges

The Scheme of Transfer generally makes no reference to the implementation of expenses and charges. Charges are however set out in the policyholder documents so there is little discretion in how these charges get implemented. Therefore, these are expected to remain unchanged as a consequence of the Scheme of Transfer for all policyholders. I have no issues to note.

8.2.5 Costs of the Scheme of Transfer

All costs associated with the Transfer, including the costs of the Approved Actuary and counsel will be borne by Citizens. The costs will not affect the asset or liability positions of the policyholders of the Scheme Entities. The costs are not expected to exceed $500k and are immaterial to the overall financial position of Citizens.

8.2.6 Discretion

Policyholders expect that the application of discretion will be unchanged as a result of the Scheme of Transfer. I note that the guaranteed crediting rates on deposits are set centrally by Citizens and are not expected to be impacted as a result of the transfer.

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8.2.7 Policyholder communications

Section 6 sets out the proposed communications plan for policyholders. I have been provided with draft versions of this policyholder information pack and I have no issues to note with the detail included in it. In terms of policyholder communications, I note:

- The intention is to communicate with CICA Bermuda policyholders via a Circular to Policyholders.
- I note that the Circular to Policyholders references the documents made available for consultation to CICA Bermuda policyholders (including a website link to view and download, as well as an address in Bermuda at Kennedys, CICA Bermuda's counsel, to physically inspect) will include:
  - This Report and a summary of this Report ("Summary Report")
  - The Scheme of Transfer
  - The petition to the Bermuda Court
- The Circular to Policyholders will advise policyholders of their right to be heard by the Bermuda Court at the sanction hearing regarding any objections. It will provide the policyholders with a summary of the key terms of the Scheme of Transfer, including (i) information on the background to and reasons for the Proposed Transfer, (ii) the effect of the Proposed Transfer on the policies and what the policyholders have to do, (iii) information about CICA PR, (iv) an overview of Bermuda regulatory protections and of the transfer proceedings, which includes a statement that this Report opines that the Proposed Transfer will not materially adversely affect the policyholders and is fair to the policyholders, (v) how to object to the Proposed Transfer, (vi) what happens on the Effective Date, and (vii) a listing of documents available for inspection and a helpline service to call for questions.
- In addition to the Circular to Policyholders, CICA Bermuda will publish a legal notice in connection with the Proposed Transfer in the Bermuda Royal Gazette.
- I understand that my Report will be available to policyholders via a link on Citizens' website at https://www.citizensinc.com/cica-ltd-transition-cica-ai-puerto-rico/ and the existence of the above-referenced documents will be very clearly signposted in the Circular to Policyholders. This approach is in line with my understanding of the BMA's expectations.
- In addition, the Circular to Policyholders will be made available on the Citizens' website.
- I understand that Spanish, Portuguese and Mandarin translations of the Circular to Policyholders and Summary Report will be made available to CICA Bermuda policyholders.
- There is no intention to communicate with the policyholders of CICA PR. It is my understanding that this is not a requirement of the OIC and therefore I consider it reasonable.

Given my finding above and with the agreement of the BMA, I am comfortable with this communication approach.

8.3 Conclusion on the impact of the Scheme of Transfer on the fair treatment of policyholders

Given the considerations set out above, in my opinion the implementation of the Scheme of Transfer will not have a material adverse effect on the reasonable benefit expectations of transferring CICA Bermuda policyholders.

Given the considerations set out above, in my opinion the implementation of the Scheme of Transfer will not have a material adverse effect on the reasonable benefit expectations of transferring CICA PR policyholders.

Appendix 1: Scope from Engagement Letter

The role of Approved Actuary will be to consider and to report to the Bermuda Court on the proposed transfer of business pursuant to the Scheme of Transfer, and to opine as to whether any policyholders' interests could be in any way (either directly or indirectly) adversely affected by the Scheme of Transfer.

In order to form the opinion, we will expect the tasks that will be carried out will include the following:

- *reviewing the background of the Scheme Entities;*
- *review of policies to be transferred;*
- *review of proposal to transfer policies (in particular, documentation sent to policyholders);*
- *review of the transfer documentation and, if necessary, suggest amended drafting in order to eliminate any concerns;*
- *review of the financial condition of the Scheme Entities;*
- *review the proposed transfer considering the effect on all classes of policyholders covering their contractual rights, benefit security, continuation of operations, service to policyholders, and benefit expectations;*
- *in particular review the different regimes in place for the business from a financial and Treating Customers Fairly perspective;*
- *review existing and proposed reinsurance and capital structures;*
- *review projected comparative solvency levels on a Bermuda and Puerto Rico regulatory capital basis before and after the Scheme of Transfer;*
- *liaise and raise issues and questions as necessary with the appropriate persons at the Company and the Transferee; and*
- *liaise and raise issues and questions as necessary with your advisers, including legal and tax advisers.*

Appendix 2: Approved Actuary CV

Brendan McCarthy

Brendan McCarthy

Managing Director

1 Harbourmaster Place

IFSC, Dublin 1 Ireland

Education Qualifications

- Bachelor of Science in Mathematical Sciences, NUIG
- Fellow of Institute of Actuaries
- Fellow of Society of Actuaries in Ireland

Background

Brendan joined KPMG in December 2004 and leads our the actuarial advisory's offering across the life and health insurance sectors. He has been involved in a wide range of actuarial projects including secondment to senior actuarial and finance roles, recovery planning, Solvency II model development, business planning , finance transformation and IFRS restatement exercises.

Experience

- Since joining KPMG, he has been responsible for delivering a large number of projects across financial reporting, unit price rectification, due diligence exercises and financial reporting process improvement. He is responsible for a portfolio of audit clients of the firm providing actuarial assistance for financial reporting auditing purposes on a range of bases including IFRS, Irish GAAP, Irish regulatory, US GAAP and EEV so he brings some expertise and insight to financial reporting practices.
- Brendan has held a number of senior PCF roles (including Head of Actuarial Function, Chief Risk Officer and Head of Finance) and has discharged a number of formal actuarial peer reviews and independent actuary reviews on behalf of the firm.
- Brendan leads the actuarial advisory's offering across the life and health insurance sectors and has been the key actuarial advisor to the HIA since October 2012 providing regular advice and analysis in respect of the performance and risk profile of the 3 open market insurers.
- Brendan sits on a number of Society of Actuaries committees including the Healthcare and the Cross Border committees. Brendan previously was a member of Society of Actuaries Council and chaired the Society's Healthcare committee.
- Recent relevant projects include:
  - Brendan leads out on our Recovery Planning offering and has supported a number of insurers in the development of Recovery Plans for submission to the Central Bank of Ireland;
  - Re-design of Prophet models for a large international life insurer to streamline Solvency II / IFRS17 calculations as part of a wider financial transformation project;
  - Secondment to an international insurer as Head of Actuarial Function and Chief Risk Officer;
  - Senior actuary responsible for the delivery of actuarial services to a cross border insurer responsible for production of all actuarial reporting including Solvency II balance sheet and ORSA projections;
  - Leading out on an operational risk review on behalf of the Central Bank in respect of a large international insurer's flagship product;
  - Assistance with the development of a risk monitoring tool for Variable Annuity business for the Central Bank of Ireland. This provided Brendan with a valuable insight into the views of Central Bank around the risks undertaken by Variable Annuity writers and information necessary to fully understand these risks;
  - Has led a number of due diligence exercises for clients interested in the consolidation of a number of regulated life entities in the market including supporting a number of portfolio transfer exercises where a deal could not be achieved;
  - Enhancement of international insurer's actuarial models for Solvency II purposes;
  - Delivery of IMAP documentation for the purposes of Central Bank engagement and approval.

Key skills: Modelling (Prophet, R), Solvency II, IFRS17, actuarial transformation

Appendix 3: Overview of Puerto Rico Regulatory Regime

Background

The Puerto Rican insurance industry is regulated by the Office of the Commissioner of Insurance.

The Commissioner of Insurance of Puerto Rico adopted a new Rule No. 80, Standards for the Regulation of the Operations of International Insurers and Reinsurers, in accordance with the provisions of Section 2.030 and of Chapter 61 of Public Law No. 77, enacted on June 19, 1957, as amended, known as the Puerto Rico Insurance Code (the "Code"), as well as Public Law. 170, enacted on August 12, 1988, as amended, known as the Uniform Administrative Procedures Act of Puerto Rico.

Rule No. 80 is divided into various sections, of which the following is the most relevant for the purpose of this Report:

Section 2 – Purpose and Scope

This Rule is adopted for the purpose of establishing the standards for regulating the establishment, authorization, operation, and supervision of international insurers according to the various amendments that have been made to Chapter 61 of the Puerto Rico Insurance Code (the Code). This Rule shall be applicable to all insurers and reinsurers that seek to establish and receive authorization to transact insurance policies under the provisions Chapter 61 of the Code.

Section 3 – Statement of Need and Objective

Chapter 61 of the Puerto Rico Insurance Code, the "International Insurers and Reinsurers Act of Puerto Rico", ("Chapter 61") established the initial legal basis for developing Puerto Rico as an International Insurance Center for the export of insurance and reinsurance services in international markets. Since the approval of the Act in 2006, the accumulated experience has reaffirmed that Puerto Rico has the ideal legal and regulatory framework, credentials, and tax structure for making our jurisdiction a leader in the international insurance market. Nevertheless, given its particular characteristics, the international insurance industry experiences rapid and continual change in response to a wide range of global factors that requires that insurance commissioners or regulators of the insurance industry to constantly update the legal and regulatory framework accordingly.

Rule No. 80 is adopted for the purpose of updating the standards for regulating the establishment, authorization, and supervision of international insurers and reinsurers, in view of the various amendments that have been incorporated into Chapter 6. The Commissioner of Insurance may authorize international insurers to transact insurance, reinsurance, or related services business, subject to compliance with the requirements set forth in this Rule and Chapter 61, with Class 1, Class 2, Class 3, Class 4, Class 5, or Class 6 authorization, or combination of such classes, to operate through the International Insurance Center. The regulatory framework will provide adequate protection for policyholders, the public interest and responds to the needs and emerging changes in the insurance international market.

Section 5 – International Insurer Holding Companies

The provisions regarding international insurer holding companies are set forth in Rule 82 of the Regulations of the Code, which were approved jointly by the Office of the Commissioner of Insurance of Puerto Rico and the Department of the Treasury of the Commonwealth of Puerto Rico

Section 6 – Requirements for Authorization of International Insurers

Insurers and reinsurers that qualify as international insurers and that are seeking to transact insurance policies through the Puerto Rico International Insurance Center will comply with the authorization requirements for international insurers as provided in Section 61.050 of the Code.

Section 9 – Minimum Capital and Surplus: Letters of Credit – Assets and Section 10 – Premium Ratio; Liquidity

These sections deal with the various bands of minimum capital and surplus, minimum premium ratios, and minimum liquidity ratios for the various insurer classes.

In addition, Title 26, Chapter 43 outlines the minimum capital and surplus required for International Insurers.

As per par. 1(e) Class 5 International Insurers are required to maintain a minimum capital and surplus of $750,000 at all times.

Section 10 – Premium Ratio; Liquidity Ratio

The value of the assets established in the international insurer's financial statement which has been reconciled according to Statutory Accounting Principles (SAP) set forth in this Rule, at all times shall exceed the value of the liabilities in the amounts set forth below:

e. For international insurers with Class 5 Authority, the larger of the following amounts:

iii. Seven hundred fifty thousand dollars ($750,000), or

iv. The ratio of net premium plus written considerations and Capital and Surplus, established in the Operational Plan submitted along with the authorization application or amended and approved by the Commissioner, applied to net premium and considerations in the current accounting year.

International insurers should maintain a Minimum Liquidity Ratio under Section 61.090 of the Code, subject to the following:

(d) All international insurers should maintain liquid assets with a value of no less than eighty percent (80%) of the total amount of their liabilities.

(e) For the purposes of this section, the term "liquid assets" includes (i) fixed-term cash deposits; (ii) classified investments, such as bonds and non-mortgage obligations, common and preferred stock, and other classified investments; (iii) bonds and unclassified notes, valued according to the value reported on audited financial statements; (iv) real estate first mortgage investments; (v) payable and accrued investment income; (vi) accounts and premiums receivable for no more than ninety (90) days; (vii) reinsurance receivable balance; and (viii) funds retained by ceding reinsurers, for no more than one hundred and sixty (160) days

(f) For the purposes of this section, investments in preferred or common stock of an affiliate are not considered liquid assets.

Section 11 – Annual Report

All international insurers must prepare and file an annual report with the Commissioner, in accordance with Section 61.100 of the Code. This report is subject to the following requirements:

- The international insurer will prepare an annual report on the actual financial situation of the insurer and transactions of the insurer up to the closing of the previous fiscal year.
  - The annual report may be filed, with the prior approval by the Commissioner, using Statutory Accounting Principles (SAP), as defined in the Accounting Practices and Procedures adopted by the National Association of Insurance Commissioners (NAIC). In that case, the annual report shall be filed using the form that corresponds to the type of operation, according to the annual report instructions published by the NAIC for the accounting year covered in the report.
  - The annual report may be prepared using Generally Accepted Accounting Principles for the United States (GAAP-US), provided that the notes of the report include a reconciliation of the difference between net profit and capital, and surplus as stated in the annual report which is prepared using the Statutory Accounting Principles (SAP) established herein. The notes of the annual report of the international insurer containing the reconciliation required in this paragraph shall be presented in the form established by the Commissioner.
  - The annual report may be prepared using International Financial Reporting Standards (IFRS), provided that the notes of the report include a reconciliation of the difference between net profit and capital, and surplus as stated in the annual report which is prepared using the Statutory Accounting Principles (SAP) established herein. The notes of the annual report of the international insurer containing the reconciliation required in this paragraph shall be presented in the form established by the Commissioner
- Surplus certificates or any other similar instrument issued to the owner of an international insurer that comply with applicable requirements of Sections 29.300 and 29.310 of the Code will not be considered liabilities of the international insurer for the purposes of determining the insurer's financial situation.

Section 12 - Investments

International insurers shall submit their Investment Plans along with the authorization application and maintain the filing current with regard to any change in such plan, which must comply with the provisions on investments in Section 61.110 of the Code, as well as the following:

- Capital and minimum surplus of the international insurer in accordance with Section 61.080 of the Code will be maintained in cash, cash equivalents or irrevocable letters of credit issued by an authorized bank in the Commonwealth of Puerto Rico or by a bank that belongs to the Federal Reserve System and has been approved by the Commissioner
- International insurers shall file along with the authorization application an Investment Plan to be implemented or otherwise comply with the investment requirements of Chapter 6 of the Code, except Sections 6.050(6) and (7), 6.070, and 6.110(4) such Chapter. Notwithstanding the provisions of Chapter 61 of the Code, the Commissioner may approve the use of reliable alternative evaluation and appraisal methods.
- The Commissioner may prohibit, limit or require divestment of any investment that threatens the solvency or liquidity of an international insurer.
- The letters of credit may be retained by the international insurer and may be included as admitted investments, subject to approval by the Commissioner, provided they comply with the requirements set forth in Section 9 of this Rule.
- The Commissioner may allow an international insurer to include as an admitted investment any other non-admitted asset, as set forth herein.

Section 15 – Privacy of the Information Gathered

Except as provided in Section 61.250 of the Code, the Office of the Commissioner of Insurance will maintain the confidentiality of all information that is obtained from an international insurer in an investigation or report and will not reveal the information to any person or authority whatsoever.

The Office of the Commissioner of Insurance may publish statistical data, provided the information is published in a consolidated or aggregate form, or if it is information that the Commissioner deems should be made public.

Section 16 – Powers of the Commissioner

The Commissioner will have the authority as provided in Sections 2.030 and 61.260 of the Code to examine and investigate any person to whom this Rule is applicable, for the purpose of verifying compliance with the applicable provisions of the Rule and the Code

Appendix 4: Overview of Bermuda Regulatory Regime

Background

The Bermuda regulatory framework is built upon the quantitative, qualitative and supervisory pillars. The framework is intended to be equivalent to the Solvency II framework adopted in Europe (and, indeed, the European regulatory authorities have declared the Bermudan regime to be equivalent).

Risk, Capital and Solvency

Insurers are expected to ensure that it carries sufficient capital in line with the BMA's requirements. This is achieved through the following:

Bermuda Solvency Capital Requirement (BSCR)

- Computed using the BMA's factor-based model, which is designed to approximate a Tail Value at Risk measure based on a 99% confidence level over a one-year time period with full run-off of insurance liabilities. It can be calculated using either the standard formula or an approved internal model.
- Insurers shall submit to the BMA a completed capital and solvency return annually.

Economic Balance Sheet (EBS)

- Assets and liabilities to be carried at a market consistent / fair value basis.
- EBS technical provisions are based on a market-consistent approach and consist of a best estimate liability (BEL) and a risk margin calculation.
- Solvency II approach is an acceptable alternative, subject to BMA approval.

Commercial Insurer's Solvency Self-Assessment (CISSA)

- Each commercial insurer must carry out a CISSA annually and submit the output of the assessment, meeting specific minimum requirements.
- Requires insurers to identify all the material risks (including qualitative risks) to which it is subjected, including the related risk management processes and controls.
- The underlying processes of the CISSA should be integrated into the insurer's decision-making process and serve a critical role in the development, implementation, and monitoring of management strategies.

Financial Reporting

Insurers are expected to follow the filing and disclosure requirement as follows:

Financial Conditions Report (FCR)

- An FCR is to be produced and made available as a public document, typically on the insurer's own website. The FCR is required to include discussion of business and performance, risk profile, capital management, solvency valuation, governance structure and significant events.
- The FCR needs to be filed with the BMA (by April 30 for insurers with calendar year-ends) and needs to be either published on the insurer's website within 14 days of filing with the BMA or needs to be furnished to the public within 10 days of a request, if the insurer does not have a website.

GAAP and Statutory Statements

- All commercial insurers to produce and file audited GAAPs (IFRS is acceptable).
- Exemption to filing full GAAPs is possible for Class 3A, C and D insurers. Instead "condensed" statements are produced.
- Statutory financial statements will be derived from GAAPs through the application of prudential filters, such as the removal of goodwill and intangible assets.

Other Bermuda Requirements

In addition to the above risk, capital and solvency, and financial reporting requirements, the following also form part of the regulatory regime of the BMA:

Insurance Code of Conduct

- The insurer is expected to follow the BMA's Insurance Code of Conduct, which is continuously being updated to reflect areas of emerging practice and the results of their latest supervisory reviews.

AML/ATF Regulations

- The insurer is expected to follow the BMA's AML and ATF requirements. Recent inspection reports from the BMA have highlighted a tougher stance being taken in cases where they consider companies do not have the appropriate policies and controls in place to meet Bermuda regulations.

Regime Updates

Some updates came into effect from 1st January 2019. The text below provides a high-level overview of the planned changes:

- There is a 10 year grade-in period from the capital calculated on the previous rules to the capital calculated on the new rules (i.e. the full effect of the new capital charges will be therefore first achieved the financial year beginning on or after 1st January 2028). This extended grade-in period reflects the long-term nature of the liabilities underwritten by these insurers and their limited ability to re-price contracts.
- The areas of change are equity risk, premium risk, credit risk, dependencies within premium and reserve risks, the overall risk aggregation process, operational risk, other BSCR adjustments, treatment of run-off insurers, currency risk, interest rate and liquidity risk, risk mitigation, use of management actions, the use of look through, treatment of derivatives, and grade-in arrangements as well as other provisions.
- In the previous method the BSCR Standard Formula used a duration approximation to calculate the capital charge associated with Interest Rate and Liquidity Risk. The new approach requires companies consider the impact of shocks on the yield curve used to assess the best estimate liabilities.
- For operational risk, the factors are amended.

The approach to aggregating the capital has changed.

Appendix 5: Information received

The table below sets out a summary of the information provided to me to facilitate preparation of this report. I would note that, in addition to the summary list below:

- I had regular calls with management to discuss queries and issues arising, and
- That supporting emails were also provided to supplement the key reports outlined below.

Information Provided – CICA Bermuda
2021-12-06-09-16-13-Class-E-2021-BSCR Q222.xlsm
2022.05.11 CICA Life Ltd. CRS Review Report - FINAL (BT signed).pdf
Baker Tilly - CISSA Review Final Report - CICA Ltd.pdf
BMA 14 Day Letter MSM Breach- CICA Life Ltd Final V.pdf
CICA 360 Rulebook FINAL 1.26.22.pdf
CICA ALM Review Final Report.pdf
CICA Life Ltd Final_ S.6C Modification application (MMS Calculation).docx
Jan 2023_CICA Section 6C Directions Approval Letter (signed)
CICA Life Ltd. - Aon PR Notification [11 August 2022].docx.pdf
CICA Life Ltd. - Meeting with the BMA FINAL - MSM.pptx
CICA Life_AA report 311219_Final.docx
CICA Life_AA report 311220_FINAL.docx
CICA Life_AA report 311221_FINAL_signed.pdf
CICA Life_BMA_Note_30062022_Final.docx
CICA Life_BMA_Note_311219_Final.docx
CICA Life_BMA_Note_311220_Final.docx
CICA Life_BMA_Note_311221_Final.docx
CICA Ltd Board Update - for 15 September.docx
CICA_Service Agreement.pdf
CISSA_YE21 BSCR_analysis Final 04.20.22.pdf
CISSA_YE21 BSCR_analysis word doc v7 HW changes accepted - update.docx
Consideration Language.docx
Freedom-series-rulebook- 022322.pdf
Keep Well 2021 10k public disclosures.docx
Ltd Premiums by Country.xlsx
Reinsurance Premiums and Recoverables.xlsx
SCH S Part 3 Sct 1 2021 - CICA LTD_hw 083022.xlsx
Signed Keep Well Agreement - 2021.pdf
Summary of 2021 to 2018 Inc Smt for Actuary Report update with june 22.xlsx
CICA_Novations confirmed.pdf
CICA Life LTD & AI LDTI Estimates.docx
Information on AOCI FV Equity and LDTI 9.30.22 and 6.30.22.docx

Information Provided – CICA PR
Certificado de Autoridad de CICA LIFE A.I..pdf
CICA Life A.I.-TL to the OIC (Change of control BP amendment) 10-06-2022 FILED.pdf
CICA Life, A.I.-CT a la OCS (Radicación Services Agreement revisados) 05-19-2022 (FILED).pdf
Documentation of purpose and detail workings of AVR.docx
Exhibit C - Scheme of Transfer – CICA Life (Draft 21 Nov 2022).pdf
Exhibit E - Legal Notice to be Pub'd in Gazette.pdf
Exhibit N - Draft Petition.pdf
Exhibit P - CICA Bermuda -CICA PR -Reinsurer-Reinsurance Novation Agreement (draft subject to reinsurer comment).pdf
Sept Value of LPs for KPMG DS 10.198.22.xlsx
Stat vs GAAP write-up included with our Statutory Audit Reports.pdf
Memo - CICA Life Ltd & AI Financial Projections.docx
Business Plan - Draft 02.14.2022.pdf
CICA_Life_Ltd_PR Feasibility Study_Mar17.pdf
Exhibit I - June 2022 QFR 06.30.22 CICA Life LTD.pdf
Circular to policyholders (Draft 11 Oct 22).docx
2022-2026 CICA Life AI (PR) Financial Projections 10.13.2022.xlsm
LPs for KPMG analysis 10.20.22.xlsx
Sensitivity Memo - CICA Life AI Projections 10.20.22 v1.docx
CICA Life AI Keep Well Agreement FINAL (signed).pdf
Agreement Citizend, Inc & Cica Life A.I11112022.pdf
Nexo_Resolution_-_Stock_Trnsfer_Agmt_Capital_Injection.pdf
Information Provided – Citizens
2022 Citizens Proxy for Section only Risk Governance Overview.docx
2022 Dividend Assessment and Declaration 060722.pptx
2022-citizens-proxy-statement-final.pdf
CIA 5 Year Balance Sheet Forecasting v2 jeff updates.xlsx
CIA 5 Year Balance Sheet Forecasting v2 to KPMG 10.06.2022.xlsx
CIA-2019.12.31-10K FINAL.pdf
CIA-2020.12.31-10K Final.pdf
CIA-2021.12.31-10K Final.pdf
CIA-2022.6.30.10Q - FINAL.pdf
Citizens Inc 2022-26 Forecast - June 2022 Update.pdf
Citizens Inc Org Chart w AI v4.pdf
Citizens Inc. INVESTMENT POLICY - Revised 9.9.21 FINAL.pdf
Fixed Maturity Portfolio Characteristics - June 2022 - Citizens Inc only.pdf
Inforce policy count.xlsx
Investment Management Objectives - 09.2022.xlsx
Reinsurance Listing 6.30.22.xlsx
Opinion_KeepWell Enforceability.pdf
Parent Only Financial – Citizens.xls

Appendix 6: Glossary

AML	Anti-Money Laundering
AOCI	Accumulated other comprehensive income
BEL	Best Estimate Liabilities
Bermuda Court, the	Supreme Court of Bermuda
BMA	Bermuda Monetary Authority
BSCR	Bermuda Solvency Capital Requirement
CISSA	Commercial Insurer's Solvency Self-Assessment
COC	Insurance Code of Conduct
EBS	Economic Balance Sheet
ERM	Enterprise Risk Management
FCR	Financial Condition Report
US GAAP	U.S. Generally Accepted Accounting Principles
KPMG	KPMG Bermuda
Insurance Act, the	Bermuda Insurance Act 1978
NIAC	National Association of Insurance Commissioners
OIC	The Office of the Insurance Commissioner of Puerto Rico
PRE	Policyholder Reasonable Expectation
RGT	Risk Governance Team
RBC	Risk-based Capital
UL	Universal Life Product

KPMG

Appendix 7: SAP to GAAP differences

Notes to Statutory-Basis Financial Statements 31 December 2021 and 2020, CICA Life Insurance Company of America

1. Nature of Operations and Summary of Significant Accounting Policies

(b) Basis of Presentation

The statutory-basis financial statements of CICA America have been prepared in conformity with the accounting practices prescribed or permitted by the Colorado Division of Insurance (the "Department"), which vary in some respects from US GAAP. The Department recognizes only statutory accounting practices prescribed or permitted by the state of Colorado for determining and reporting the financial condition and results of operations of an insurance company, and for determining solvency under the state of Colorado insurance laws. The National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices of the state of Colorado.

NAIC SAP varies in some respects from GAAP. The principal differences between NAIC SAP and GAAP include:

- The financial statements of subsidiaries are not consolidated and are accounted for as investments in common stock. Subject to certain statutory limitations, the book value of insurance subsidiaries is adjusted to their statutory surplus by a credit or charge as an unrealized gain or loss, reported as a component of surplus. Investments in Citizens and CTI are carried at values prescribed by the Department and the NAIC. Under US GAAP, investments in Citizens' common stock would be carried at fair value with changes in fair value recorded through net income, and certain investments in affiliates are consolidated in accordance with current accounting standards;

- Investments in bonds are generally carried at cost or amortized cost. Accordingly, unrealized changes in fair value are not reflected in the statutory-basis balance sheets, statements of operations, or statements of changes in capital and surplus. Under US GAAP, investments in bonds, other than those classified as held-to-maturity, are carried at fair value, with unrealized holding gains and losses reported in the statement of operations for those designated as trading and as a separate component of shareholders' equity for those designated as available-for-sale;

- Cash equivalents are distinguished from cash under US GAAP. Under NAIC SAP, cash includes cash equivalents;

- Under NAIC SAP, short-term investments are included with cash for purposes of presenting the statements of cash flows. Under US GAAP, only cash equivalents are included with cash on the statements of cash flows;

- Certain assets (principally certain deferred tax assets, furniture, equipment, prepaid expenses, and advance commissions) have been designated as non-admitted assets and are excluded from assets by a charge to statutory surplus. Under US GAAP, such amounts are carried at cost with the appropriate valuation allowance , when necessary;

- Deferred income taxes are recognized for both NAIC SAP and US GAAP; however, the amount permitted to be recognized is generally more restrictive under NAIC SAP, and the change in deferred taxes is reported as a direct charge to surplus. Under GAAP, deferred income tax benefit or expense is reported in the statements of operations;

- Policy acquisition costs are expensed as incurred under NAIC SAP, while under US GAAP these costs, to the extent recoverable from future policy revenues and associated with successful efforts of policy issuance, are deferred and recognized over the life of the contract using assumptions consistent with those used in computing policy benefit reserves;

- Life policy reserves are based on prescribed statutory mortality and interest requirements without consideration of withdrawals, while under US GAAP, life policy reserves are based on best estimate assumptions and are subject to management judgment.

- An AVR is determined by an NAIC-prescribed formula and reported as a liability, and changes therein are credited or charged directly to unassigned surplus, whereas under US GAAP, no AVR is recorded;

- Net realized investment gains or losses attributed to changes in the level of interest rates in the market are deferred, net of applicable taxes, and amortized over the remaining life of the bond through an Interest Maintenance Reserve ("IMR"). Under US GAAP, net realized gains or losses are recognized in the statements of operations when the sale is completed;

- Reinsurance recoverables on unpaid claims and reinsurance reserve credits are reported as a reduction in policy and contract liabilities under NAIC SAP rather than as assets under US GAAP;

- The statements of cash flows are presented as prescribed by NAIC SAP, and a statement of comprehensive income is not required by NAIC SAP; and

- Corrections of immaterial errors, if any, are recorded directly through surplus under NAIC SAP rather than through the statement of operations as reported under US GAAP.

The effects of the foregoing variances from US GAAP on CICA America’s statutory-basis financial statements have not been determined, but are presumed to be material.

Appendix 8: 2021 Key Risks

Citizens Inc./CICA Bermuda.					
2021 Key Risks					
Risk ID	Risk Pillar	Risk Category	Risk Title	Risk Description	Mitigation Measures Implemented
FIN-12	Financial	Financial Risk (including Market Risk)	Significant increase in GAAP reserves for long duration targeted improvements.	Implementation of long duration targeted improvements will cause a significant increase in GAAP reserves and thus could negatively affect the capital position of Citizens and subs.	Work closely with consultants to implement long-duration targeted improvements effectively and efficiently. Quantify range of impacts as soon as possible. Determine if there are any tactical or strategic alternatives to reduce the impact of long-duration targeted improvements.
FIN-01	Financial	Financial Risk (including Market Risk)	Interest rate fluctuations and the effect on assets, liabilities and equity	Material and adverse effect on our financial condition and results of operations due to interest rate fluctuations, including treasury rates, market discount rates and investment yield rates.	Monitor capital levels quarterly, including quarterly preparation of Bermuda Solvency Capital Ratio and Economic Balance Sheet, monitor interest rates and fair value marks on our assets and oversight provided through Investment Committee as well as Wellington Asset Management.
FIN-07	Financial	Financial Risk (including Market Risk)	Inaccurate assessment of investments	Record credit impairment that never actually materializes or we may fail to recognize losses within the appropriate reporting period. Negative changes in fair value of our equity and other long-term investments.	Quarterly credit impairment reviews, maintain watch list of potential troubled securities and frequent dialogue with investment manager. Quarterly investment reviews with Wellington. Active monitoring of our equity and other long-term investment portfolios and frequent discussion and review with portfolio managers.
OP-06	Operational	Operational Risks	Unmet regulatory and reporting requirements	Failure to comply with CRS and/or FATCA compliance and reporting requirements could subject us to regulatory scrutiny and/or monetary penalties. This could result in unanticipated costs associated with remedying such failures, closing of accounts, harm to our reputation, interruption of our operations or an adverse impact on our financial position or results of operations.	We continue to update and build upon our CRS and FATCA policies and procedures on a regular basis, including both compliance and reporting documentation. We use CRS/FATCA consulting expertise on an as needed basis.
STR-02	Strategic	Strategic Risk	Undercapitalized based on the RBC or BSCR ratio	Solvency or capital ratios reach certain minimum levels which could subject us to further examination or corrective action imposed by our insurance regulators, including limitations on our ability to write additional business,	Strong quarterly capital management. Complete BSCR and EBS in its entirety for first 3 quarters. Annually complete the BSCR and EBS Assessment as of year-end. A $10M Keep Well Agreement was implemented in April 2021.

				supervision by regulators, seizure or liquidation, each of which could materially and adversely affect our business, financial condition, results of operations, cash flows and prospects	
OP-11	Operational	Operational Risks	Significant negative impact of catastrophes on sales, operations, results of operations and our financial position	Catastrophes may adversely impact sales, liabilities for policyholder claims, reinsurance availability, disrupt our operations and could significantly affect our results of operations and financial position if are target markets are impacted.	Business continuity/disruption plan is followed, crisis management team steps into action, operations is able to adequately function, marketing keeps in close communication with IC's and potential financial impact is monitored. We mitigate significant property losses in our home service business through catastrophic reinsurance coverage.

Appendix 9: Limited Partnerships

		September 30, 2022			December 31, 2021		
(In thousands, except years)		Fair Value Using NAV Per Share	Unfunded Commit-ments	Range (in years)	Fair Value Using NAV Per Share	Unfunded Commit-ments	Range (in years)
Limited partnerships							
Middle market	Investments in privately-originated, performing senior secured debt primarily in North America-based companies	$ 31,427	8,233	9	$ 21,947	18,712	10
Global equity fund	Investments in common stocks of U.S., international developed and emerging markets with a focus on long-term capital growth	8,095	—	0	10,607	—	0
Late-stage growth	Investments in private late-stage, established companies seeking capital to accelerate growth prior to an IPO or sale	17,640	20,000	5 to 7	20,468	4,459	6
Infrastructure	Investments in climate infrastructure assets, focusing on renewable power generation in wind and solar energy	5,293	14,462	11	3,016	16,653	12
Total limited partnerships		$ 62,455	42,695		$ 56,038	39,824	

The majority of our limited partnership investments are not redeemable because distributions from the funds will be received when the underlying investments of the partnerships are liquidated. The life spans indicated above may be shortened or extended at the fund manager's discretion, typically in one or two-year increments. The global equity fund is redeemable monthly.

We initially estimate the fair value of investments in limited partnerships by reference to the transaction price. Subsequently, we obtain the fair value of these investments from net asset value information provided by the general partner or manager of the investments, the financial statements of which are audited annually. We carried no limited partnership investments at cost at September 30, 2022 and December 31, 2021.

We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. There were no transfers in or out of Level 3 during the nine months ended September 30, 2022 or 2021.

Appendix 10: Financial projection assumptions

The following commentary has been provided by the CFO in relation to the Citizens and CICA PR projections:

"Overall, the projections are based on key objectives the company is focused on. The projections are completed based on the best-known assumptions, facts and circumstances and compared to historical trends. In the 2022 to 2026 planning cycle, we focused on 4 main objectives with each tied into our new pay for performance plan.

- *First year sales increase – focus on growth*
- *Improve policy retention – improved first year persistency, reduce international surrenders*
- *Roadmap execution – delivering on three key levers product, promotion and process*
- *Financial and expense discipline – achieve planned net pre-tax income*

The plan is built from a combination of historical trends, current and projected investment holdings, reinvestment yields, sales projections, company objectives and output from Actuarial modelling produced by our AXIS application. The following high-level details/assumptions used for our planning process:

Primary sources of funds are insurance premiums and investment income, our revenues:

- *Premium revenues, which include both first year and renewal year premium revenues, are modelled from sales projections, new products, sales initiatives, historical trends and AXIS (Actuarial valuation platform) output. First year sales targets are set to be realistic based on our initiatives.*
- *Net investment income is projected based on current fixed maturity holdings and layering on net cash flows from operating activities and reinvestment of maturity/calls and coupon payments received. Reinvestment rate is assumed based on best estimates at the time the plan is developed. Estimates for our limited partnership net investment income based on historical and projected yields.*
- *Investment related gains(losses) with the complexity and uncertainty around investment related gains (losses), we assume zero for our projection years.*

Primary use of funds is the payment of insurance benefits for claims, surrenders, commissions and general expenses:

- *Death benefits, surrenders and matured endowment benefits are based on our best estimates and assumptions generally sourced from our Actuarial valuation modelling platform.*
- *Change in reserves is provided as part of the AXIS model, adjusted for business not modelled on AXIS.*
- *Commissions are modelled as a percentage of first year and renewal year premium revenue based upon historical averages. First year commission rates are higher than renewal rates.*
- *General operating expenses are completed by cost center and would include assumptions based on company initiatives for both increases and decreases to our operating costs."*

Premiums

The table below provides an overview of premium revenue assumptions.

	Actual				*Plan*			
$000's	*2019*	*2020*	*2021*	*2022*	*2022*	*2023*	*2024*	*2025*
Gross Premium	*132,908*	*125,409*	*122,227*	*121,154*	*120,306*	*123,593*	*133,002*	*143,125*
Growth		*-5%*	*-3%*	*-1%*		*3%*	*8%*	*8%*

As can be observed from historical periods, CICA Bermuda has experienced declining premium revenues. This was mainly caused by a higher level of surrenders, increased matured endowments (as the business ages) and lower first year premiums. The decline in premiums has however slowed down since 2020 (-5% in 2020, -3% in 2021 and -1% in 2022) and CICA Bermuda / CICA PR is expecting to increase premium revenues with a combination of retention efforts on existing business as well as focusing on first year sales. Renewal premium currently comprises 80-90% of annual premium and is assumed to have modest renewal growth between 2-3% for the future years projected.

CICA PR's first-year premium growth includes increasing production per independent consultant, new distribution, new geography, and new products. The current projections assumed new business premiums to increase from approximately $12m over the last couple of years to $14m, $21m and $27m for 2023, 2024 and 2025 respectively. The combined premium growth of 7% is therefore considered to be within reason given current business plans.

Commissions

Commission rates are contractual, and the commission expense assumptions would therefore fluctuate based on the weighting of first year vs. renewal year sales and new products. The table below shows both the assumed commission expenses as well as the projected commission rate as a proportion of projected premiums. The commission assumption appears reasonable when considering premium projections and the additional focus on new business sales in the foreseeable future.

	Actual				*Plan*			
$000's	*2019*	*2020*	*2021*	*2022*	*2022*	*2023*	*2024*	*2025*
Commission	*19,360*	*17,465*	*18,114*	*19,520*	*21,323*	*24,646*	*30,086*	*32,376*
Rate	*15%*	*14%*	*15%*	*16%*	*20%*	*20%*	*23%*	*23%*

Investment Returns

The reinvestment rate assumption for the plan on fixed maturities securities is 3.5% over the future years projected. The average investment yields used for equity and limited partnership investments, ranges between 3.4% to 6.5% over the planning years provided.

The BMA publish two curves on a quarterly basis, a standard spot rates (corporate bonds) and a risk free spot curve. Considering the latest risk-free spot curves published by the BMA as of 31 December 2022, the current risk-free spot rates range from 5% to 3.5% between durations 1 and 20 years. Similarly, the current standard curves range between 6.1% and 4.6% for durations 1 to 20 years. These curves provide a benchmark for the current assumptions ranging between 3.5%-6.5% which are therefore considered to be within a reasonable range of estimates.

Demographic Assumptions

The demographic assumptions used for the projections are the same assumptions used for the US GAAP financials that are reviewed by the external auditors on an annual basis. This provides comfort that the current assumption base has gone through an independent review and are therefore assumed to be within reason.

PADs are not removed for the forecasted numbers, but are excluded from the LDTI numbers provided.

Expenses

The table below provides an overview of the expense assumptions used for future financial projections.

	Actual				*Plan*			
$000's	*2019*	*2020*	*2021*	*2022*	*2022*	*2023*	*2024*	*2025*
Other General Expenses	*18,334*	*14,821*	*17,415*	*20,883*	*18,303*	*18,486*	*18,672*	*19,045*
Capitalisation of Deferred Acquisition Costs	*(17,361)*	*(15,498)*	*(16,104)*	*(17,893)*	*(17,893)*	*(18,957)*	*(21,912)*	*(26,748)*
Amortisation of Deferred Acquisition Costs	*23,595*	*23,502*	*21,342*	*19,630*	*19,630*	*22,177*	*23,435*	*25,065*
Policyholder Dividends	*18,143*	*16,673*	*15,872*	*17,965*	*18,068*	*17,377*	*17,582*	*17,582*
Total	***42,711***	***39,498***	***38,525***	***40,585***	***39,591***	***37,387***	***34,570***	***34,497***
Growth		*-8%*	*-2%*	*5%*		*-8%*	*-8%*	*0%*

The downward trend is primarily driven by the planned growth on new business, which is driving a higher deferral of acquisition costs over the forecasted years, primarily from higher projected commission expenses. The level of deferrals increases at a rate higher than the planned amortization of the deferred acquisition costs.

Other general expenses are projected to remain relatively flat with a 1% growth rate over the forecasted years. I note that in 2022 that other general expenses were $2.6m ahead of plan. These reflect some project spend and convention costs which were not included in the original forecasts. I note that while the projections provided to me do not allow for the increased level of expenses, CICA PR has the mechanism to manage the overall result through the level of dividends paid on participating business. I note that dividends are not guaranteed and they are declared annually by the board of directors. While I note that historically dividends have been managed passively, mechanisms are available for CICA PR to manage the overall result over time. This provides me with comfort that the overall results presented to me are reasonable over the course of the projections.

In aggregate, while I consider the assumptions and financial projections provided me by management to be reasonable based on the explanations and supporting information provided to me, I have relied on the review performed by Citizens' Chief Actuary when preparing this report.