

**Fortitude International Reinsurance Ltd.  
Financial Statements**

**As of and for the year ended December 31, 2022,  
as of December 31, 2021, and for the period from  
November 18, 2021 (Date of Incorporation) to December 31, 2021**

**Fortitude International Reinsurance Ltd.**  
**Financial Statements**  
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## **Report of Independent Auditors**

To the Board of Directors of Fortitude International Reinsurance Ltd.

### ***Opinion***

We have audited the accompanying financial statements of Fortitude International Reinsurance Ltd. (the “Company”), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income (loss), of changes in shareholders’ equity, and of cash flows for the period from November 18, 2021 to December 31, 2021 and for the year ended December 31, 2022, including the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the period from November 18, 2021 to December 31, 2021 and for the year ended December 31, 2022 in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Emphasis of Matter***

As discussed in Note 10 to the financial statements, the Company has entered into a significant reinsurance transaction with an affiliate of T&D Holdings, Inc., which is a related party. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.



### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

Nashville, Tennessee  
April 26, 2023

**Fortitude International Reinsurance Ltd.**  
**Balance Sheets**  
(in thousands, except share data)

	December 31,	
	2022	2021
<b>Assets:</b>		
Investments:		
Fixed maturity securities, at fair value	\$ 422,782	\$ —
Derivatives assets, at fair value	558	—
<b>Total investments</b>	<b>423,340</b>	<b>—</b>
Cash and cash equivalents	268,417	2,000
Accrued investment income	5,003	—
Reinsurance receivable	110,131	—
Deferred acquisition costs	27,446	—
<b>Total assets</b>	<b>\$ 834,337</b>	<b>\$ 2,000</b>
<b>Liabilities and Equity</b>		
<b>Liabilities:</b>		
Policyholder contract deposits	\$ 577,645	\$ —
Payable to related parties	1,159	—
Other liabilities	2,835	—
<b>Total liabilities</b>	<b>581,639</b>	<b>—</b>
<b>Contingencies and commitments (Note 8)</b>		
<b>Equity:</b>		
Common stock - \$1 par value; 1,250,000 shares authorized; 1,250,000 issued and outstanding at December 31, 2022 and 2021	1,250	1,250
Additional paid-in capital	255,750	750
Retained deficit	(4,302)	—
<b>Total equity</b>	<b>252,698</b>	<b>2,000</b>
<b>Total liabilities and equity</b>	<b>\$ 834,337</b>	<b>\$ 2,000</b>

See accompanying Notes to Financial Statements.

**Fortitude International Reinsurance Ltd.**  
**Statements of Income (Loss)**  
(in thousands)

	Year Ended December 31, 2022	Period from November 18, 2021 (Date of Incorporation) to December 31, 2021
<b>Revenues:</b>		
Net investment income	\$ 2,711	\$ —
Investment losses	(865)	—
Foreign exchange losses	(362)	—
<b>Total revenues</b>	<b>1,484</b>	<b>—</b>
<b>Benefits, losses and expenses:</b>		
Interest credited to policyholder account balances	2,811	—
Commission expense	1,085	—
General operating and other expenses	1,890	—
<b>Total benefits, losses and expenses</b>	<b>5,786</b>	<b>—</b>
<b>Net loss</b>	<b>\$ (4,302)</b>	<b>\$ —</b>

See accompanying Notes to Financial Statements.

**Fortitude International Reinsurance Ltd.**  
**Statements of Changes in Shareholders' Equity**  
(in thousands)

For the Year Ended December 31, 2022 and the Period from November 18, 2021  
(Date of Incorporation) to December 31, 2021

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total Shareholders' Equity
<b>Balance, November 18, 2021</b>	\$ —	\$ —	\$ —	\$ —
Issuance of common stock (Note 11)	1,250	—	—	1,250
Contributed capital (Note 11)	—	750	—	750
<b>Balance, December 31, 2021</b>	1,250	750	—	2,000
Contributed capital (Note 11)	—	255,000	—	255,000
Net loss	—	—	(4,302)	(4,302)
<b>Balance, December 31, 2022</b>	<b>\$ 1,250</b>	<b>\$ 255,750</b>	<b>\$ (4,302)</b>	<b>\$ 252,698</b>

See accompanying Notes to Financial Statements.

**Fortitude International Reinsurance Ltd.**  
**Statements of Cash Flows**  
(in thousands)

	Year Ended December 31, 2022	Period from November 18, 2021 (Date of Incorporation) to December 31, 2021
<b>Cash flows provided by (used in) operating activities</b>		
Net loss	\$ (4,302)	\$ —
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>		
Investment losses	865	—
Net foreign exchange losses	362	—
Accretion of net premiums, discounts and other	(363)	—
Changes in operating assets and liabilities:		
Derivatives, net	403	—
Accrued investment income	(5,003)	—
Reinsurance receivable	3,855	—
Other liabilities	185	—
Payable to related parties	1,159	—
<b>Net cash used in operating activities</b>	(2,839)	—
<b>Cash flows provided by (used in) investing activities</b>		
<b>Proceeds from the sale, maturities, and prepayments of:</b>		
Fixed maturity securities, at fair value	192,056	—
<b>Purchases of:</b>		
Fixed maturity securities, at fair value	(612,192)	—
<b>Net cash used in investing activities</b>	(420,136)	—
<b>Cash flows provided by (used in) financing activities</b>		
Issuance of common stock	—	1,250
Capital contributions	255,000	750
Deposits received for investment-type policyholder contract deposits	432,440	—
Withdrawals from investment-type policyholder contract deposits	(13)	—
<b>Net cash provided by financing activities</b>	687,427	2,000
Effect of foreign exchange rate changes on cash and cash equivalents	1,965	—
Net increase in cash and cash equivalents	266,417	2,000
Cash and cash equivalents at the beginning of the period	2,000	—
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 268,417</b>	<b>\$ 2,000</b>

See accompanying Notes to Financial Statements.



**Fortitude International Reinsurance Ltd.**  
**Notes to Financial Statements**

## **1. Organization and Nature of Operations**

Fortitude International Reinsurance Ltd. ("FIRL" or the "Company") is a Bermuda exempted company, which was incorporated on November 18, 2021. FIRL was registered with effect from January 1, 2022 under the Insurance Act 1978 and related regulations, as amended (the "Bermuda Insurance Act") as a Class 4 and Class E composite reinsurance company. The Company is primarily a reinsurer of general insurance and life insurance run-off and flow business. FIRL is a direct subsidiary of Fortitude International Group Holdings ("FIGH" or the "Parent"), a holding company domiciled in the United Kingdom, and an indirect subsidiary of the ultimate parent, FGH Parent, L.P. ("FGP"), a Bermuda limited partnership.

Effective October 1, 2022, the Company entered into a flow reinsurance transaction with an affiliated Japanese life insurance company in which the Company assumed a quota share basis of United States dollar ("USD") and Australian dollar ("AUD") denominated single premium whole life products issued to the Japanese market.

FGP, together with its subsidiaries, is owned by Carlyle FRL, L.P. ("Carlyle FRL"), an investment fund advised by an affiliate of The Carlyle Group Inc. ("Carlyle"), an SEC-registered global investment firm, T&D United Capital Co., Ltd. ("T&D"), a wholly-owned subsidiary of T&D Holdings, Inc., a listed Japanese insurance group, and AIG, an SEC-registered company, which owned interests in FGP of 71.28%, 25.93% and 2.79%, respectively, as of December 31, 2022 and 71.5%, 25.0% and 3.5%, respectively, as of December 31, 2021.

Unless the context indicates otherwise, the terms "we" "us" or "our" refers to FIRL.

## **2. Basis of Presentation**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). All amounts are presented in United States dollars.

### **Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions when applying accounting policies that often involve a significant degree of judgment. The Company's accounting policies that are most dependent on the application of estimates and assumptions are those related to the determination of:

- Fair value measurements of investments including derivatives; and
- Estimates of the remaining life of the underlying contracts, which is used as the basis for amortizing deferred acquisition costs ("DAC") from long duration reinsurance contracts.

Additional details regarding these and other estimates and assumptions are included within the significant accounting policies and the related disclosures that follow. These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, the Company's financial condition, results of operations and cash flows could be materially affected.

### **Business Risks and Uncertainties**

Our operations are influenced by many factors, including but not limited to, general economic conditions, regulatory changes, market risks normally associated with investments, the financial condition of our cedants and risks impacting insurance liabilities.

The Company is regulated by the Bermuda Monetary Authority ("BMA"). Future changes in regulatory requirements could have an unanticipated impact on the Company.

Liquidity, interest rate, foreign exchange and credit spread risks are all market risks. Liquidity risk is the risk that the Company's financial condition will be adversely affected by the inability or perceived inability to meet short-term cash, collateral or other obligations. Interest rate risk can arise from a mismatch in the interest rate exposure of assets compared to liabilities. Changes in interest rates can affect the valuation of fixed maturity securities, financial liabilities and insurance contracts. Foreign exchange risk can arise from a mismatch in the foreign currency

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**Notes to Financial Statements**

exposure of assets compared to liabilities. Changes in foreign exchange rates can affect the valuation of non-U.S. dollar denominated assets and liabilities. Credit spreads measure an instrument's risk premium or yield relative to that of a comparable duration, default-free instrument. Changes in credit spreads can affect the valuation of fixed maturity securities, including but not limited to corporate bonds, asset-backed securities, and mortgage-backed securities.

Market risk is monitored and managed using an asset-liability management framework. For both assets and liabilities, market risk exposures are measured in terms of sensitivities to changes in the relevant risk factors. In addition, the Company performs stress testing on these market risk factors to capture concentration risks to a single market risk factor change as well as simultaneous multiple market risk factor changes, to understand the net impact on exposure from impacts on both assets and liabilities.

The Company's insurance liabilities are exposed to policyholder behavior risk. The Company manages this risk through ongoing monitoring and assessment of such experience relative to underlying assumptions.

### **3. Summary of Significant Accounting Policies**

The following summarizes our significant accounting policies.

#### **Investments**

*Fair value option:* The fair value option ("FVO") provides entities with an alternative to use fair value as the initial and subsequent accounting measurement attribute for assets and liabilities that meet the definition of a financial asset or liability. The decision to elect the FVO is determined on an instrument by instrument basis and is applied to an entire instrument. The decision is irrevocable once elected. We have made this election on certain investments as it improves our operational efficiency. Refer to the investments section below and Notes 4 and 6 for more information on the Company's FVO elections.

*Fixed maturity securities:* We have elected the FVO on the entirety of our fixed maturity securities portfolio. Realized and unrealized gains and losses on FVO securities are reported in investment losses on the statements of income (loss).

Investments in fixed maturity securities are recorded on a trade-date basis, with any unsettled trades recorded in other assets or other liabilities on the balance sheets. Interest income related to fixed maturity securities, including amortization of premium and accretion of discount, are included in net investment income under the effective yield method. Prepayment premiums are also included in net investment income.

Interest income is recognized using the effective yield method and reflects amortization of premium and accretion of discount. For investments in certain structured securities, recognized yields are updated based on current information regarding the timing and amount of expected undiscounted future cash flows. For high credit quality structured securities, effective yields are recalculated based on actual payments received and updated prepayment expectations. For structured securities that are not of high credit quality, the structured securities yields are based on expected cash flows which take into account both expected credit losses and prepayments.

*Derivative assets:* Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices, values of securities or commodities, credit spreads, market volatility, expected returns, and liquidity. Values can also be affected by changes in estimates and assumptions, including those related to counterparty behavior and non-performance risk ("NPR") used in valuation models. Derivative financial instruments generally used by the Company include swaps and forwards and may be exchange-traded or contracted in the over-the-counter ("OTC") market. Certain of the Company's OTC derivatives are cleared and settled through central clearing counterparties, while others are bilateral contracts between two counterparties.

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Derivative positions are carried at fair value, generally by obtaining quoted market prices or through the use of valuation models.

The Company uses currency derivatives to reduce exposure to foreign currency risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred.

The Company does not designate any derivative positions as hedging instruments. Accordingly, all realized and unrealized changes in fair value of currency derivatives are recorded in current earnings within foreign exchange losses on the statements of income (loss). Cash flows from derivatives are reported in the operating activities section in the statements of cash flows.

The Company nets the fair value of all derivative financial instruments with counterparties for which a master netting arrangement has been executed.

### **Cash and Cash equivalents**

Cash and cash equivalents include cash on hand, amounts due from banks, certain money market investments and funds managed similar to regulated money market funds with maturities of three months or less when purchased.

### **Accrued investment income**

Accrued investment income primarily includes accruals of interest and dividend income from investments that have been earned but not yet received.

### **Reinsurance**

We assume long duration investment contracts under coinsurance arrangements. We follow reinsurance accounting for transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To meet risk transfer requirements, a reinsurance agreement must include both insurance risk consisting of both underwriting and timing risks, and a reasonable possibility of a significant loss. Those contracts that do not meet risk transfer requirements are accounted for using deposit accounting, rather than reinsurance accounting.

Reinsurance receivable includes contractual balances due from ceding companies. Where a right of offset exists, this also includes accrued interest on policyholder contract deposits which accrued outside the account value as it is due to the reinsurer.

Accounting for reinsurance requires the use of assumptions, particularly related to the future performance of the underlying business and the potential impact of counterparty risks. The Company attempts to minimize counterparty risk through the structuring of the terms of the reinsurance agreements, including the use of trusts and the monitoring of credit ratings of the counterparties for signs of declining credit quality.

### **Deferred acquisition costs ("DAC")**

DAC represents the costs that are incremental and directly related to the successful acquisition of new or renewal of existing insurance contracts. We defer incremental costs that result directly from, and are essential to, the acquisition or renewal of an insurance contract. Each cost is analyzed to assess whether it is fully deferrable. If deferrable, these costs have been recorded as an asset.

Deferred costs related to investment contracts with significant revenue streams from sources other than investment of the policyholder funds are amortized over the lives of the policies, based upon the proportion of the present value of actual and expected deferred costs to the present value of actual and expected gross profits to be earned over the life of the policies.

We perform periodic tests, including at issuance, to determine if the deferred costs are recoverable. If we determine that the deferred costs are not recoverable, we record a cumulative charge to the current period.

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**Policyholder contract deposits**

The liability for policyholder contract deposits is recorded at accumulated or fund value (deposits received less withdrawals, charges and fees). Amounts collected on investment-oriented products are not recognized as revenues, because they are recorded directly to policyholder contract deposits upon receipt.

Policyholder contract deposits are comprised of single premium whole life ("SPWL") contracts which are structured akin to a deferred annuity. Interest crediting rates for the Company's policyholder contract deposits range from 1.4% to 4.7%.

For contracts without significant mortality or morbidity risk (investment contracts), premiums received are reported as policyholder contract deposits. Revenues from these contracts are reflected in policy charges and fee income consisting primarily of fees assessed against the policyholders' account balances for policy administration charges and surrender charges. Policy charges are recognized as revenues in the period in which they are assessed against policyholders, unless the charges are designed to compensate us for the services to be provided in the future, in which case they are deferred. The Company did not record any policy charges during the year ended December 31, 2022 or the period from November 18, 2021 to December 31, 2021.

**Other liabilities**

Other liabilities primarily consist of accrued expenses and payables resulting from purchases of securities that had not yet settled at the balance sheet date.

**Foreign exchange losses**

Financial statement accounts expressed in foreign currencies are translated into U.S. dollars. Functional currency assets and liabilities are translated into U.S. dollars generally using rates of exchange prevailing at the balance sheet date. Revenues and expenses are translated at an average exchange rate for the reporting period. The resulting translation adjustments and exchange gains and losses are recognized in foreign exchange losses within the statements of income (loss).

**Future Adoption of Accounting Standards**

*ASU 2020-03 Codification Improvements to Financial Instruments:*

In March 2020, the FASB issued ASU 2020-03 which makes narrow-scope improvements to various topics within the codification relating to financial instruments, inclusive of the new credit losses standard as described below. The amendments related to certain specific issues covered by the ASU were effective immediately upon the issuance of the ASU, and had no impact on our financial statements and disclosures. Other specific issues covered by the ASU related to the measurement of credit losses on financial instruments will become effective upon our adoption of ASU 2016-13 and the related ASUs as further described below.

*ASUs 2016-13, 2018-19, 2019-04, 2019-05, 2019-10, 2019-11, 2020-02 Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments:*

In June 2016, the FASB issued an accounting standard that introduced a new credit loss methodology, the Current Expected Credit Losses ("CECL") methodology, which requires earlier recognition of credit losses while also providing additional transparency about credit risk. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, reinsurance receivables, and other financial assets measured at amortized cost. The allowance for credit losses is adjusted each period for changes in expected lifetime credit losses. The CECL methodology represents a significant change from prior U.S. GAAP and replaced the prior multiple existing impairment methods, which generally required that a loss be incurred before it was recognized.

*ASU 2018-12 Targeted Improvements to the Accounting for Long-Duration Contracts and ASU 2020-11 Effective Date and Early Application:*

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**Notes to Financial Statements**

In August 2018, the FASB issued ASU 2018-12, an accounting standard update with the objective of making targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. In November 2019, the FASB issued ASU 2019-09, an amendment to ASU 2018-12 extending the effective date of ASU 2018-12 for all entities, except for public business entities that meet the definition of a Securities and Exchange Commission (SEC) filer, by two years. In November 2020, the FASB issued ASU 2020-11, *Effective Date and Early Application*, an amendment to ASU 2018-12, to defer the effective date of ASU 2018-12 by one year in response to implementation disruptions due to COVID-19.

The changes to the measurement, recognition, presentation and disclosure as provided by the new accounting standard update are summarized below:

- Requires the review and update of future policy benefit assumptions at least annually for traditional and limited pay long duration contracts, with the recognition and separate presentation of any resulting re-measurement gain or loss (except for discount rate changes as noted below) in the statements of income (loss);
- Requires the discount rate assumption to be updated at the end of each reporting period using an upper medium grade (low-credit risk) fixed income instrument yield that maximizes the use of observable market inputs and recognizes the impact of changes to discount rates in other comprehensive income (loss);
- Requires the measurement of all market risk benefits associated with deposit (or account balance) contracts at fair value through the income statement with the exception of instrument-specific credit risk changes, which will be recognized in other comprehensive income (loss);
- Requires the amortization of deferred acquisition costs over the expected term of the related contracts on a constant-level basis; and
- Requires significant disclosures, including disclosures of disaggregated roll-forwards of policy benefits, account balances, market risk benefits, separate account liabilities and information about significant inputs, judgments and methods used in measurement and changes thereto and impact of those changes.

ASU 2018-12 permits two adoption methods for the liability for future policy benefits and deferred acquisition costs: (1) a modified retrospective transition method in which the guidance is applied to contracts in force as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI; or, (2) a full retrospective transition method. The Company will adopt ASU 2018-12 effective January 1, 2025 using the modified retrospective transition method where permitted, and apply the guidance as of January 1, 2023 (and record transition adjustments as of January 1, 2023) in the Company's 2025 financial statements.

The Company has created a governance framework and a plan to support implementation of the updated standard. The Company continues to make progress in its implementation process that includes, but is not limited to, refining significant accounting policy decisions, employing appropriate internal controls, modifying actuarial models and systems, revising reporting processes and developing informative qualitative and quantitative disclosures.

The Company is continuing its assessment of the accounting standard adoption and its impact to the Company's financial statements.

**Fortitude International Reinsurance Ltd.**  
**Notes to Financial Statements**

**4. Investments**

**Net Investment Income**

The following table presents the components of net investment income for the year ended December 31, 2022, and the period from November 18, 2021 to December 31, 2021 (in thousands):

	<u>2022</u>	<u>2021</u>
Fixed maturity securities	\$ 2,272	\$ —
Cash equivalents	439	—
<b>Gross investment income</b>	<u>2,711</u>	<u>—</u>
Investment expenses	—	—
<b>Net investment income</b>	<u>\$ 2,711</u>	<u>\$ —</u>

**Investment Losses**

The following table presents the components of investment losses for the year ended December 31, 2022, and the period from November 18, 2021 to December 31, 2021 (in thousands):

	<u>2022</u>	<u>2021</u>
Fixed maturity securities, at fair value		
Realized losses	(1,032)	—
Unrealized gains under the FVO	167	—
<b>Investment losses</b>	<u>\$ (865)</u>	<u>\$ —</u>

**Securities Pledged and Restricted Assets**

The Company pledges as collateral investment securities it owns to unaffiliated parties through certain transactions, including postings of collateral with derivative counterparties.

We utilize asset trust accounts to collateralize business with our reinsurance counterparties. As of December 31, 2022 and 2021 we held \$431,865 thousand and \$0, respectively, of assets in these trusts for the benefit of our counterparties.

**5. Derivatives and Hedging**

The Company utilizes currency derivatives, including currency swaps and forwards, to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell.

Under currency forwards, the Company agrees with counterparties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. dollar-denominated earnings are expected to be generated.

Under currency swaps, the Company agrees with counterparties to exchange, at specified intervals, the difference between one currency and another at an exchange rate and calculated by reference to an agreed principal amount. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party.

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**Notes to Financial Statements**

See Note 3 for a detailed discussion of the accounting treatment for derivative instruments. See Note 6 for additional disclosures related to the fair value of our derivative instruments.

The table below provides a summary of the gross notional amount and fair value of derivative contracts by instrument type. The fair value amounts below represent the value of derivative contracts prior to taking into account the netting effects of master netting agreements and cash collateral at December 31, (in thousands):

Instrument Type	2022			2021		
	Notional	Gross Fair Value		Notional	Gross Fair Value	
		Assets	Liabilities		Assets	Liabilities
Foreign currency forwards	\$ 64,067	\$ 596	\$ 173	\$ —	\$ —	\$ —
Foreign currency swaps	34,600	154	577	—	—	—
<b>Total Derivatives</b>	<b>\$ 98,667</b>	<b>\$ 750</b>	<b>\$ 750</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

The following table presents the gains and losses reported within foreign exchange losses on the statement of income (loss) by instrument type for the year ended December 31, 2022, and the period from November 18, 2021 to December 31, 2021 (in thousands):

Instrument Type	2022	2021
Foreign currency forwards	\$ 703	—
Foreign currency swaps	(885)	—
<b>Total Derivatives</b>	<b>\$ (182)</b>	<b>\$ —</b>

### Offsetting Assets and Liabilities

The following table presents recognized assets and liabilities, that are offset in the balance sheets, and/or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the balance sheets at December 31, (in thousands):

	2022				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Balance Sheets	Net Amounts Presented in the Balance Sheets	Financial Instruments/ Collateral <sup>(1)</sup>	Net Amount
<b>Offsetting of Financial Assets:</b>					
Derivatives	\$ 406	\$ 152	\$ 558	\$ (558)	\$ —
<b>Offsetting of Financial Liabilities:</b>					
Derivatives	\$ 406	\$ (406)	\$ —	\$ —	\$ —

<sup>(1)</sup> Amounts exclude the excess of collateral received/pledged from/to the counterparty.

The Company did not have any asset or liabilities, that are offset in the balance sheets at December 31, 2021.

## 6. Fair Value Measurements

### Fair Value Measurements on a Recurring Basis

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions.

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The degree of judgment used in measuring the fair value of financial instruments generally inversely correlates with the level of observable valuation inputs. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, liquidity and general market conditions.

### **Fair Value Hierarchy**

Assets recorded at fair value in the balance sheets are measured and classified in accordance with a fair value hierarchy consisting of three levels based on the observability of valuation inputs as follows:

- Level 1: Fair value measurements based on unadjusted quoted prices in active markets that we have the ability to access for identical assets. Market price data generally is obtained from exchange or dealer markets.
- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active or valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset.
- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are both observable and unobservable. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset. Therefore, we must make certain assumptions about the inputs a hypothetical market participant would use to value that asset.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following is a description of the valuation methodologies used for assets carried at fair value. These methodologies are applied to assets across the levels discussed above, and it is the observability of the inputs used that determines the appropriate level in the fair value hierarchy for the respective asset.

### **Valuation of Financial Instruments Measured at Fair Value**

#### *Fixed maturity securities*

Whenever available, we obtain quoted prices in active markets for identical assets at the balance sheet date to measure fixed maturity securities at fair value. Market price data is generally obtained from dealer markets. We employ multiple independent third-party valuation service providers that gather, analyze, and interpret market information to derive fair value estimates for individual investments, based upon market-accepted methodologies and assumptions. The methodologies used by these independent third-party valuation service providers are reviewed and understood by management, through periodic discussion with and information provided by the independent third-party valuation service providers, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. The pricing hierarchy is updated for new financial products and recent pricing experience with various vendors. In addition, control processes are applied to the fair values received from independent third-party valuation service providers to determine the accuracy of these values.

These control processes are designed to assess whether the fair values received from independent third-party valuation service providers are accurately recorded, that their data inputs and valuation techniques are appropriate and consistently applied and that the assumptions used appear reasonable and consistent with the objective of determining fair value. We assess the reasonableness of individual security values received from independent third-party valuation service providers through various analytical techniques, review of various pricing integrity reports



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and pricing trends, back testing, and have procedures to escalate related questions internally and to the independent third-party valuation service providers for resolution. To assess the degree of pricing consensus among various valuation service providers for specific asset types, we conduct comparisons of prices received from available sources. We use these comparisons to establish a hierarchy for the fair values received from independent third-party valuation service providers to be used for particular security classes. We also validate prices for selected securities through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

When observable price quotations are not available, internally-developed valuations or indicative broker quotes are also used to determine fair value in circumstances, or where the Company ultimately concludes that pricing information received from the independent pricing services is not reflective of market activity. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may override the information with an internally developed valuation. Fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of comparable securities, adjusted for illiquidity and structure. Fair values determined internally are also subject to management review to determine whether the valuation models and related inputs are reasonable. Pricing service overrides, internally-developed valuations and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

*Derivative assets*

The fair values of derivative contracts can be affected by changes in foreign exchange rates, market volatility, expected returns, NPR, liquidity and other factors.

The Company's derivative positions are traded in the OTC derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models that utilize actively quoted or observable market input from external market data providers, third-party pricing vendors and/or recent trading activity. The Company's policy is to use mid-market pricing in determining its best estimate of fair value. The fair values of most OTC derivatives, including cross-currency swaps and currency forward contracts are determined using discounted cash flow models.

*Cash and Cash equivalents*

Cash and cash equivalents include money market instruments and other highly liquid debt instruments. Cash and cash equivalents, including certain money market instruments, are primarily valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1.

**Assets Measured at Fair Value**

The following table presents information about assets measured at fair value on a recurring basis and indicates the level of the fair value measurement based on the observability of the inputs used at December 31, (in thousands):

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**2022**

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Fixed maturity securities, at fair value:				
Non-U.S. governments	\$ —	\$ 1,928	\$ —	\$ 1,928
Corporate debt	—	366,106	—	366,106
RMBS	—	260	—	260
CDO / ABS	—	54,488	—	54,488
Total fixed maturity securities, at fair value	—	422,782	—	422,782
Cash and cash equivalents	268,417	—	—	268,417
Derivative assets, at fair value	—	558	—	558
<b>Total assets</b>	<b>\$ 268,417</b>	<b>\$ 423,340</b>	<b>\$ —</b>	<b>\$ 691,757</b>

**2021**

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 2,000	\$ —	\$ —	\$ 2,000
<b>Total assets</b>	<b>\$ 2,000</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,000</b>

The Company had no assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2022, and the period from November 18, 2021 to December 31, 2021.

**Fair Value Information About Financial Instruments Not Measured at Fair Value**

The following table presents the carrying amounts and estimated fair values of our financial instruments not measured at fair value and indicates the level in the fair value hierarchy of the estimated fair value measurement based on the observability of the inputs used at December 31, (in thousands):

	<b>2022</b>				<b>Carrying Value</b>
	<b>Estimated Fair Value</b>				
	Level 1	Level 2	Level 3	Total	
<b>Liabilities:</b>					
Policyholder contract deposits associated with investment-type contracts	\$ —	\$ —	\$ 536,592	\$ 536,592	\$ 577,645

The Company had no financial instruments not measured at fair value as of December 31, 2021.

Information regarding the estimation of fair value for financial instruments not carried at fair value is discussed below:

*Policyholder contract deposits associated with investment-type contracts*

Policyholder contract deposits associated with investment-type contracts are estimated using discounted cash flow calculations based on interest rates currently being offered in the industry for similar contracts with maturities consistent with those of the contracts being valued. Other factors considered in the estimation process include

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current policyholder account values and related surrender charges, expectations about policyholder behavior and risk margin adjustments.

## 7. Reinsurance

The following table shows the effects of assumed reinsurance on the statements of income (loss) for the year ended December 31, 2022, and the period from November 18, 2021 to December 31, 2021 (in thousands):

	2022 <sup>(1)</sup>	2021
Interest credited to policyholder account balances	2,811	—
Commission expense	1,085	—

<sup>(1)</sup> Represent related party balances.

The following table shows the effects of assumed reinsurance on the balance sheets as of December 31, (in thousands):

	2022 <sup>(1)</sup>	2021
Reinsurance receivable	\$ 110,131	\$ —
Deferred acquisition costs	27,446	—
Policyholder contract deposits	577,645	—

<sup>(1)</sup> Represent related party balances.

The table below presents a rollforward of DAC for the year ended December 31, 2022, and the period from November 18, 2021 to December 31, 2021 (in thousands):

	2022	2021
<b>Balance, beginning of period</b>	<b>\$ —</b>	<b>\$ —</b>
Deferrals	27,232	—
Effect of foreign exchange rates	214	—
Amortization	—	—
<b>Balance, end of period</b>	<b>\$ 27,446</b>	<b>\$ —</b>

## 8. Contingencies and Commitments

### Litigation and Regulatory Matters

As of December 31, 2022 and 2021, the Company has no material contingent liabilities arising from litigation, make-whole fee conditions or other matters, other than liabilities arising in the normal course of its business of reinsurance.

### Commitments

As of December 31, 2022 and 2021, the Company has no outstanding commitments.

## 9. Income Taxes

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on profits or income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being introduced the Company will be exempted from taxation until the year 2035. The Company did not make an election under section 953(d) of the U.S. Internal Revenue Code to be treated as a U.S. domestic

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insurance company for U.S. tax purposes. While the Company constitutes a controlled foreign corporation for U.S. tax purposes through its constructive ownership by Fortitude Group Holdings LLC, a direct subsidiary of FGP, there will be no amount of gross income treated as U.S. taxable income.

## **10. Related Party Transactions**

### Carlyle Affiliated Entities

During the year ended December 31, 2022, the Company entered into investment management agreements with Carlyle affiliates (collectively the "Investment Manager"), pursuant to which the Investment Manager provides certain investment management and advisory services with respect to certain asset classes. The Company did not record any expenses related to these agreements for the year ended December 31, 2022, and the period from November 18, 2021 to December 31, 2021, respectively.

### T&D Affiliated Entities

On October 1, 2022, the Company entered into a reinsurance agreement with an affiliate of T&D, whereby the Company assumed a quota share of USD and AUD denominated single premium whole life products issued to the Japanese market under a coinsurance basis. See Note 7 for related party reinsurance balances recorded as of and for the year ended December 31, 2022.

### Expense Charges and Allocations

A portion of the Company's expenses are allocations or charges from Fortitude Group Services ("FGS"), an indirect wholly-owned subsidiary of FGP, and Fortitude International Group Services ("FIGS"), a direct wholly-owned subsidiary of FIGH. These expenses primarily relate to general and administrative expenses which include accounting, actuarial, risk management and data processing services. During the year ended December 31, 2022, the Company was allocated \$1,101 thousand and \$197 thousand of costs for these services from FGS and FIGS, respectively. As of December 31, 2022, the Company recorded payables of \$962 thousand and \$197 thousand to FGS and FIGS, respectively, for invoices not yet settled within payable to related parties on the balance sheet. The Company did not incur any related party expenses during the period from November 18, 2021 to December 31, 2021.

### Intercompany Liquidity Agreement

The Company entered into an intercompany liquidity agreement that allows the Company and other affiliates to lend or borrow funds to meet short-term liquidity and other capital needs. The Company did not lend or borrow any funds during the year ended December 31, 2022 or the period from November 18, 2021 to December 31, 2021.

## **11. Shareholders' Equity**

The Company's \$1,250 thousand of common stock is comprised of 1,250,000 shares at a par value of \$1, which were issued to FIGH on December 22, 2021. As of December 31, 2022 and 2021, the Company has issued 1,250,000 shares, of which, 100% are owned by FIGH.

The Company received capital contributions from FIGH of \$21,000 thousand and \$234,000 thousand on September 30, 2022 and December 20, 2022, respectively. The Company received a capital contribution from FIGH of \$750 thousand on December 22, 2021.

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**12. Statutory Requirements**

Under the Bermuda Insurance Act, the Company is registered as a Class 4 and Class E composite reinsurance company. The Company is subject to the following statutory reporting requirements:

1. Statutory financial statements ("SFS"): The SFS framework is consistent with U.S. GAAP reporting requirements adjusted for prudential filters. These adjustments include the elimination of non-admitted assets not considered admissible for solvency purposes, the inclusion of certain assets and liabilities that are generally off-balance sheet under U.S. GAAP and adjustments for directions or permitted practices by the BMA. The Company has obtained permission under Section 6C of the Bermuda Insurance Act to value the fixed maturity securities investment portfolios pertaining to long-term business at amortized cost rather than fair value within the statutory financial statements for the year ended December 31, 2022.
2. Economic Balance Sheet ("EBS"): Under the EBS framework, assets and liabilities are mainly assessed and included at fair value, with the insurer's U.S. GAAP balance sheet serving as a starting point. The EBS also requires insurers to estimate insurance technical provisions, which consist of the insurer's insurance related balances valued based on a best estimate liability plus a risk margin. The best estimate liability may be calculated by applying the standard approach or the scenario approach. Under the standard approach the discount rate for insurance reserves is a rate prescribed by the BMA. Under the scenario approach the discount rate for insurance reserves is based on the yield on eligible assets owned by the insurer as determined under the worst result of eight prescribed stressed conditions.

The Company is subject to capital requirements calculated using the Bermuda Solvency and Capital Requirement ("BSCR") model, which is a standardized statutory risk-based capital model used to measure the risk associated with the Company's assets, liabilities and premiums as valued under EBS. Required statutory economic capital and surplus under the BSCR model is referred to as the enhanced capital requirement ("ECR"), which is the greater of the BSCR and minimum margin of solvency ("MSM"). The Company is required to calculate and submit a quarterly financial return, inclusive of the ECR, on a quarterly basis and a statutory financial return and capital and solvency return, inclusive of the ECR, on an annual basis. Following receipt of the submission of these returns, the BMA has the authority to impose additional capital requirements (capital add-ons) if it deems necessary. The BMA has not imposed any additional capital requirements on the Company for the year ended December 31, 2022. At December 31, 2022, the Company met the minimum statutory reporting and capital requirements.

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

The statutory capital and surplus reported in the Company's SFS at December 31, (in thousands) is detailed below.

	2022	2021
Statutory capital and surplus	\$ 252,531	\$ 2,000

Under the Bermuda Insurance Act, the Company is prohibited from declaring or paying a dividend if it were in breach of its minimum solvency margin or liquidity ratio or if the declaration or payment of such dividends would cause the Company to fail to meet such margin or ratio. The Company is prohibited from declaring or paying in any fiscal period, dividends of more than 25% of its total statutory capital and surplus, as set out in its previous year's statutory financial statements, unless the Company files with the BMA a signed affidavit by at least two members of its Board of Directors attesting that a dividend would not cause the Company to fail to meet its relevant requirements. The Bermuda Insurance Act further prohibits the Company from reducing its prior period statutory capital by 15% or more without prior approval of the BMA. As the Company reinsures run-off business, we are required to seek BMA approval for any dividends or distributions.

The Company did not declare or pay any dividends to FIGH during the year ended December 31, 2022, and the period from November 18, 2021 to December 31, 2021.

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**13. Subsequent Events**

We have evaluated the impact of subsequent events through April 26, 2023, the date at which the financial statements were available to be issued.

On February 8, 2023, February 24, 2023 and March 7, 2023, the Company borrowed \$19,741 thousand, \$13,108 thousand and \$11,231 thousand, respectively, from Fortitude Group Holdings, LLC, a direct subsidiary of FGP, under the intercompany liquidity agreement. The Company repaid these loans during the second quarter of 2023.

On March 28, 2023, the Company received a \$365,000 thousand capital contribution from FIGH.

The following table summarizes significant reinsurance transactions for which definitive agreements have been established and all customary closing conditions have been completed subsequent to December 31, 2022. The initial estimate of liabilities assumed at the transaction date is shown in thousands.

Transaction	Execution Date	Initial Estimate of Liabilities Assumed	Primary Nature of Transaction
Reinsurance agreement with an affiliated Japanese life insurance company	March 27, 2023	\$ 1,149,761	Coinsurance block of Japanese Yen denominated fully paid-up whole life policies issued prior to September 2022, with an effective date of March 31, 2023.
Reinsurance agreement with an affiliated Japanese life insurance company	March 27, 2023	\$ 1,310,475	Coinsurance block of single-premium whole life policies, structured akin to a deferred annuity block, with an effective date of March 31, 2023. The policies reinsured are USD denominated and issued between 2019 and 2022.